



# UK REAL ESTATE OUTLOOK 2026:

Refinancing Risk & Capital Rotation

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# 1. Executive Summary

The UK real estate market enters 2026 having largely completed the valuation correction triggered by the rapid monetary tightening of 2022–2024. While inflation has moderated and monetary policy is shifting toward gradual easing, financing costs remain structurally higher than in the previous cycle. As a result, market conditions are defined by selective stabilisation and ongoing price discovery rather than a broad-based recovery, with outcomes increasingly differentiated by asset quality, sector, and capital structure.

A defining feature of the 2026 outlook is the refinancing wave associated with debt originated during the ultra-low interest rate environment of 2019–2021. Large volumes of commercial real estate debt are maturing into a materially higher-cost environment, constraining liquidity and placing pressure on leveraged owners, particularly in secondary and capital-intensive assets. Refinancing dynamics, rather than occupier demand, have become the primary driver of transaction activity and pricing. Well-capitalised investors with low leverage or access to long-term capital are structurally advantaged, as distress is expected to emerge selectively through recapitalisations and motivated sales rather than systemic stress.

Capital markets conditions continue to reinforce a higher-for-longer risk framework. Even as policy rates decline modestly, gilt yields remain above pre-pandemic levels, resetting required returns across real estate. Yield spreads have normalised, shifting total return drivers toward income durability rather than valuation uplift. This has accelerated market polarisation, with liquidity concentrated in assets offering resilient, risk-adjusted income.

Across sectors, prime assets continue to outperform. Prime offices in core locations with strong ESG credentials and constrained supply are benefiting from stabilising yields and rental growth, while secondary offices face structural obsolescence, rising capital expenditure requirements, and limited financing availability. Logistics and industrial assets remain structurally supported by supply constraints and resilient occupier demand, sustaining their role as core allocations. Retail has stabilised following extensive repricing, with selective opportunities in dominant centres and mixed-use assets.

Living-led and operational real estate strategies continue to attract disproportionate capital allocation. Build-to-rent, student accommodation, senior living, and data centres benefit from chronic undersupply and defensive income characteristics, although competition has increased and returns are increasingly driven by execution quality rather than sector tailwinds.

Regionally, London remains a global capital magnet, but performance is increasingly differentiated by submarket quality and affordability constraints. Major regional cities benefit from favourable demographics, regeneration pipelines, and relative value, supporting both occupational demand and institutional investment.

Overall, the UK real estate environment in 2026 favours selective capital deployment, conservative underwriting, and a focus on income security over cyclical recovery assumptions. Opportunities are most compelling where structural demand, constrained supply, and sound capital structures intersect, particularly for investors positioned to navigate refinancing dynamics and liquidity dispersion.

## 2. Introduction

The UK real estate market enters 2026 following a period of significant repricing driven by rapid monetary tightening and higher financing costs. After the correction of 2023–2024, market conditions are shifting from valuation adjustment toward selective stabilisation, with pricing, liquidity, and investment activity increasingly shaped by capital market dynamics rather than broad-based occupier demand.

This outlook examines how the evolving macroeconomic and financial environment is translating into differentiated outcomes across UK real estate sectors and regions. Rather than assuming a cyclical recovery, the analysis focuses on the structural forces defining 2026, including refinancing pressures, higher-for-longer interest rates, ESG-driven market polarisation, and capital rotation toward income-secure and operational asset classes.

The report covers UK commercial, residential, and living sectors, including offices, logistics, retail, build-to-rent, student housing, and other alternative real estate strategies. A regional perspective is incorporated across London, the South East, and major UK regional cities to capture variation in demand, supply constraints, and liquidity conditions.

The analysis draws on macroeconomic data, property market indices, broker research, and policy sources, including the Bank of England, the Office for National Statistics, MSCI, and leading real estate advisory firms. Forecasts reflect consensus market expectations as of early 2026 and remain sensitive to interest rate, policy, and financing assumptions.

The objective of this report is to provide an investment-oriented framework for assessing where capital is likely to be deployed in 2026, where risks are concentrated, and which sectors and regions offer the most attractive risk-adjusted opportunities.

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## 3. Key Themes Shaping the UK Real Estate Market in 2026

### 3.1 The Refinancing Wave: Liquidity, Not Demand, as the Binding Constraint

The defining force shaping UK real estate in 2026 is not occupier demand, but the maturity wall created by the ultra-low-rate financing of 2019–2021. A significant portion of UK commercial real estate debt will require refinancing at materially higher interest rates, fundamentally altering asset-level cash flow dynamics and investment decision-making.

While interest rates are expected to stabilise rather than rise further, the transition from sub-2% debt to financing costs closer to long-term averages continues to exert pressure on leveraged owners. This has reduced transaction volumes, delayed asset sales, and increased lender scrutiny, particularly for secondary assets with weaker income resilience.

Importantly, this refinancing stress is unevenly distributed. Well-capitalised owners with low leverage remain insulated, while highly leveraged vehicles face forced sales, recapitalisations, or equity dilution. As a result, liquidity, rather than long-term fundamentals, is increasingly dictating pricing outcomes.

**Implication for investors:** Capital advantages lie with buyers able to transact without aggressive leverage, selectively acquiring assets from motivated sellers rather than relying on broad market recovery.

### 3.2 Higher-for-Longer Rates and the Repricing of Risk

The post-GFC assumption that interest rates would remain structurally low has been decisively challenged. Even if policy rates decline modestly, the market now prices a higher neutral rate environment, forcing a reassessment of real estate's role within multi-asset portfolios.

This shift has compressed the margin for error in underwriting. Yield expansion relative to risk-free rates has become a key determinant of investment viability, particularly for income-focused strategies. Assets that fail to offer sufficient spread over government bonds struggle to attract capital unless supported by strong rental growth or defensive characteristics.

As a result, pricing discipline has improved, but so has market polarisation. Prime assets with durable income streams continue to trade, while marginal assets experience prolonged illiquidity.

**Implication for investors:** Return expectations must be recalibrated, with a greater emphasis on income durability and realistic exit assumptions rather than multiple expansion.

### 3.3 Flight to Quality and Structural Market Polarisation

The UK real estate market continues to experience a pronounced flight to quality, driven by both occupier preferences and capital market constraints. Tenants increasingly prioritise location, energy efficiency, and amenity quality, while lenders and equity investors apply stricter standards to asset selection.

This has accelerated a structural divergence between prime and secondary stock. Prime assets benefit from stronger leasing demand, greater access to financing, and superior liquidity, while secondary properties face rising capital expenditure requirements, weaker tenant demand, and declining investor appetite.

This polarisation is particularly visible in the office market but is increasingly evident across other sectors, reinforcing a two-speed real estate market.

**Implication for investors:** Risk-adjusted returns are increasingly driven by asset quality rather than sector exposure alone, favouring selective deployment over broad market positioning.

### 3.4 Green Premium vs Brown Discount: ESG as a Pricing Mechanism

Environmental performance has moved beyond reputational consideration to become a direct driver of valuation. Assets failing to meet energy efficiency standards face rising obsolescence risk, higher operating costs, and reduced liquidity, while compliant properties command stronger tenant demand and investor interest.

In 2026, ESG considerations are no longer optional overlays but embedded within underwriting assumptions, particularly for institutional capital. The cost of retrofitting older stock further exacerbates the value gap between compliant and non-compliant assets, reinforcing the "green premium / brown discount" dynamic.

**Implication for investors:** ESG compliance is increasingly a prerequisite for liquidity rather than a source of incremental return, reshaping capital allocation decisions across sectors.

### 3.5 Capital Rotation Towards Living and Logistics

As traditional commercial sectors face cyclical and structural pressures, capital continues to rotate toward living-led strategies and logistics, driven by defensive income profiles, long-term demand visibility, and institutional alignment.

Sectors such as Build-to-Rent, student accommodation, and urban logistics benefit from demographic trends, constrained supply, and relative insulation from economic volatility. While yields have compressed historically, these sectors remain attractive due to income resilience and scalability.

However, increased competition has raised the importance of entry discipline, asset selection, and operational expertise.

**Implication for investors:** Opportunities persist, but excess returns increasingly depend on execution quality rather than sector tailwinds alone.

### 3.6 Technology and Data-Driven Market Dynamics

Technological adoption across the real estate value chain continues to reshape investment processes. Enhanced data availability, performance benchmarking, and asset-level analytics have improved pricing efficiency and reduced informational asymmetries.

While technology has not eliminated cyclical risk, it has shortened feedback loops and increased transparency, contributing to faster repricing during periods of stress and recovery alike.

**Implication for investors:** Competitive advantage increasingly lies in analytical capability and decision speed rather than access to information alone.

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## 4. Macroeconomic & Capital Markets Outlook

### 4.1 UK Macroeconomic Environment

The UK macroeconomic backdrop entering 2026 reflects a transition from post-inflation stabilisation to a low-growth, easing-policy environment. Following the sharp tightening cycle of 2022–2024, inflation has moderated materially, allowing monetary policy to pivot from restriction towards gradual accommodation. However, growth momentum remains subdued, with the economy constrained by weak productivity growth, elevated debt servicing costs, and lingering real-income pressures.

According to the Bank of England, headline inflation has continued to decelerate as energy base effects unwind and goods inflation normalises. While services inflation remains stickier, forward-looking indicators point to a gradual convergence towards the Bank's target over the medium term. This has enabled the Bank of England to begin easing policy, albeit cautiously, given ongoing wage pressures and geopolitical uncertainty.

GDP growth is expected to remain modest through 2025–26. Data from the Office for National Statistics indicates that household consumption has stabilised but remains constrained by affordability pressures, while business investment has been dampened by uncertainty around financing costs and planning constraints. From a real estate perspective, this macro environment favours income durability over speculative growth, reinforcing the importance of defensive sectors and assets with pricing power.

**Implication for real estate:**

Macroeconomic conditions support a gradual recovery in transaction activity but do not justify aggressive yield compression assumptions. Base-case underwriting should remain conservative on rental growth outside structurally undersupplied segments.

## **4.2 Inflation and Monetary Policy Trajectory**

The monetary policy outlook is a central determinant of capital market behaviour heading into 2026. Having reached peak restrictiveness in 2024, the policy cycle is now characterised by measured rate cuts rather than rapid easing. The Bank of England has signalled that future reductions will be data-dependent, with particular focus on wage growth and services inflation.

This “higher-for-longer, but falling” rate environment has two important implications for property markets:

1. Debt costs are structurally higher than the 2010s, even as headline rates decline.
2. Asset pricing must adjust to a new equilibrium, rather than reverting to ultra-low yield conditions.

Long-dated gilt yields, published by the UK Debt Management Office, remain materially above pre-pandemic levels. This has reset the relative attractiveness of real estate yields, particularly for lower-quality assets where risk premia have expanded significantly.

**Implication for real estate:**

The easing cycle provides relief at the margin, but refinancing risk remains elevated for leveraged assets underwritten at peak pricing. Investors with low leverage or access to long-term capital are structurally advantaged.

## **4.3 CRE Financing Conditions and the Refinancing Wave**

A defining feature of the 2025–26 period is the commercial real estate refinancing wave, as large volumes of debt originated during the low-rate era mature into a higher-cost environment. Refinancing risk is particularly acute for secondary offices and capital-intensive assets, where valuation declines have eroded loan-to-value headroom.

Lenders have responded by tightening underwriting standards, increasing pricing margins, and favouring assets with strong income visibility and ESG compliance. This has contributed to a bifurcation in credit availability, with prime assets continuing to attract financing, while weaker assets face higher refinancing hurdles or forced deleveraging.

From a capital allocation perspective, this environment creates selective distress rather than systemic stress. Assets with strong fundamentals but impaired capital structures may present compelling recapitalisation or acquisition opportunities for well-capitalised investors.

**Implication for real estate:**

The refinancing cycle is a key driver of price discovery in 2026 and underpins the opportunity set in recapitalisations, loan-to-own strategies, and selective secondary asset repositioning.

#### **4.4 Capital Flows and Investor Sentiment**

Capital flows into UK real estate have begun to stabilise following the sharp correction in transaction volumes during 2023–24. According to market data from CBRE and JLL, investor interest has increasingly focused on sectors offering defensive income characteristics, such as logistics, build-to-rent, and operational residential assets.

International capital, particularly from North America and the Middle East, has shown renewed interest in UK assets as pricing adjusts and currency dynamics improve relative value. However, deployment remains highly selective, with a strong preference for scale, liquidity, and long-term income resilience.

By contrast, capital allocation to secondary offices and speculative development remains constrained, reflecting both financing limitations and uncertain exit liquidity.

**Implication for real estate:**

2026 is likely to see capital rotation rather than broad-based recovery, with liquidity concentrated in a narrow set of sectors and geographies.

#### **4.5 Yield Spreads and Market-Wide Indicators**

The repricing of UK real estate has restored positive yield spreads over government bonds across most sectors. Data from the MSCI UK Property Index indicates that income returns now account for a greater proportion of total returns, while capital values remain sensitive to interest rate expectations.

Prime logistics and residential assets continue to offer relatively attractive risk-adjusted spreads, while secondary offices exhibit elevated yields that reflect both structural obsolescence risk and future capital expenditure requirements. This dispersion highlights the growing importance of asset selection and underwriting discipline in achieving target returns.

Market-wide indicators suggest that while valuation declines may be largely behind the market in aggregate, recovery will be uneven and dependent on asset quality, location, and capital structure.

**Implication for real estate:**

Total returns in 2026 are expected to be driven predominantly by income, with limited scope for broad yield compression outside prime, structurally supported sectors.

#### **Section Conclusion**

The macroeconomic and capital markets backdrop entering 2026 is defined by cautious monetary easing, structurally higher financing costs, and selective liquidity across UK real estate markets.

While inflation has moderated and interest rates are on a downward trajectory, debt remains materially more expensive than in the previous cycle, reinforcing disciplined underwriting and balance-sheet strength as key determinants of performance.

Capital markets conditions point to a continuation of price discovery rather than broad-based recovery, with refinancing pressures accelerating polarisation between prime, income-secure assets, and capital-intensive secondary stock. Yield spreads over gilts have normalised, shifting return drivers toward income durability and operational performance rather than valuation uplift.

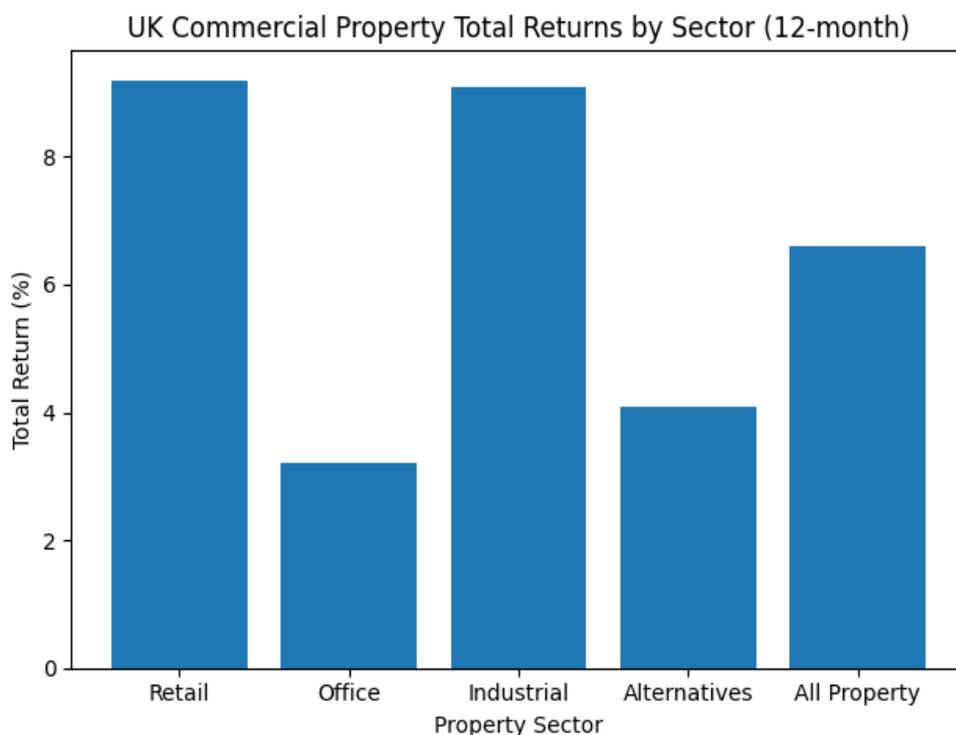
Within this environment, opportunities are increasingly shaped by sectoral fundamentals, asset quality, and capital structure, rather than macro tailwinds alone. The following section builds on this framework by assessing how these dynamics translate into differentiated outcomes across UK commercial real estate subsectors, informing relative value and investment stance for 2026.

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## 5. Commercial Real Estate Outlook

The UK commercial real estate market is beginning to stabilise following the sharp correction of 2023–2024, although recovery remains uneven across sectors. Performance is increasingly shaped by asset quality, sustainability standards, and underlying demand drivers, leading to a polarised market in which prime and alternative assets continue to outperform secondary stock. The analysis below explores the major UK commercial real estate subsectors and the factors shaping investment conditions as the market approaches 2026.

Figure 1. UK Commercial Property total returns by sector (12 months)



Source: MSCI UK Quarterly Property Index (2025)

## 5.1 Prime Offices

The strongest segment within the UK office market continues to be prime Grade A space in core city locations, particularly within London and major regional hubs. Take-up figures across the so-called “Big 6” regional cities, including Birmingham, Leeds, Manchester, Bristol and others, surged in 2025, with leasing activity rising by 31% quarter-on-quarter, and several centres reporting record-low vacancy rates (for example, Leeds Grade A vacancy at just 1.7%). In Central London, modern high-quality space remains in extremely short supply, with vacancy for new-build stock nearing virtually zero in some core submarkets.

This lack of supply has supported strong rental performance at the top end of the market. Prime rents in London have continued to rise, particularly in the West End and Midtown, as occupiers compete for a limited pool of high quality space. In some premium locations such as Mayfair and St James’s, headline rents now exceed £200 per square foot. These trends reflect a clear shift in occupier priorities, with firms increasingly favouring buildings that meet modern sustainability standards, offer flexible layouts, and support hybrid working models.

Development activity in the prime office sector remains subdued. Elevated construction costs, tighter development finance and stricter planning and environmental regulations have reduced the number of speculative schemes coming forward. As a result, supply is expected to remain constrained over the medium term, which should continue to underpin rental levels. Although office values corrected during the interest rate repricing of 2023 and 2024, yields have begun to stabilise and investor interest is gradually returning, particularly for assets with long income profiles and strong ESG credentials. Looking ahead to 2026, prime offices are well positioned to deliver stable income and modest capital growth, provided asset quality remains high.

**2026 investment stance:** Selective overweight. Prime offices are well positioned for stable income and gradual recovery, provided investors focus on location, ESG compliance, and tenant quality.

## 5.2 Secondary Offices

Secondary office markets continue to face more pronounced structural challenges. Many older buildings no longer align with occupier expectations around energy efficiency, workplace quality and location, which has resulted in weaker demand and persistently higher vacancy rates. While there have been isolated signs of stabilisation in some regional markets during 2025, this has been from a very low base and does little to offset the longer term decline in demand for lower quality space.

Rental performance in this segment remains controlled. In many cases, landlords rely heavily on incentives to secure tenants, and headline rents often fail to reflect effective income levels. The growing cost of meeting minimum energy efficiency requirements further undermines the investment case for secondary offices, particularly where refurbishment costs are high relative to achievable rents. As a result, a significant proportion of secondary stock is increasingly viewed as functionally obsolete.

Development activity within this segment is limited and largely focused on conversion rather than new construction. In urban areas, some secondary offices are being repurposed into residential, life sciences or mixed use schemes, although the viability of such projects is highly location dependent. From an investment perspective, secondary office values remain under pressure, with yields staying wide to reflect income risk and future capital expenditure requirements. Unless assets can be

repositioned or adapted to alternative uses, secondary offices are likely to continue underperforming through 2026.

**2026 investment stance:** Underweight / opportunistic. Secondary offices are best approached through redevelopment or change-of-use strategies rather than traditional income investment.

### 5.3 Logistics and Industrial

The logistics and industrial sector remains one of the strongest performers in the UK commercial property market. Demand continues to be underpinned by structural factors, including the growth of e-commerce, supply-chain reconfiguration, and the need for efficient last-mile distribution. Vacancy rates in key logistics corridors such as the Midlands and South East remain low by historical standards, reflecting sustained occupier interest.

While rental growth has moderated from the exceptional levels seen during the pandemic, it remains positive. Prime logistics rents increased by around 2 percent during the first half of 2025, while mid box and urban logistics space experienced stronger growth of over 4 percent. These increases reflect ongoing competition for well located, modern assets, particularly those close to major population centres. Limited land availability, rising construction costs, and cautious speculative development have helped prevent oversupply. Urban and last-mile assets, in particular, continue to command rental premiums due to their scarcity and proximity to consumers.

The development pipeline has expanded cautiously, with many developers seeking pre let agreements before commencing construction. This disciplined approach has limited the risk of oversupply and supported income stability. From a valuation perspective, logistics assets have proven relatively resilient, with yields stabilising earlier than in other sectors. Given the strength of occupational demand and the defensive nature of income streams, logistics and industrial property is expected to remain a core allocation for investors heading into 2026.

**2026 investment stance:** Overweight. Logistics and industrial assets remain a core allocation, offering income durability and long-term structural growth.

### 5.4 Retail and Mixed-Use

Retail real estate in the UK experienced a notable shift in 2025, with several indicators pointing to a recovery in both tenant activity and investor confidence. Knight Frank reported that retail was among the top-performing commercial asset classes in 2025, delivering an annual return of around 9.2 percent, ahead of offices and on par with industrial property

Vacancy rates in retail have fallen to their lowest levels since 2020 as consumer footfall returns to physical stores and omnichannel retail strategies mature. Although online retail remains significant at around one-quarter of total sales, it has stabilised below peak pandemic levels, underpinning renewed interest in high street and centre-based retail space. Investors are increasingly looking towards prime retail in strong catchment areas and mixed-use developments that integrate retail with leisure, office, or residential components. These hybrid assets benefit from diversified income streams and stronger resilience against single-channel retail demand fluctuations.

New retail development is limited, with most activity focused on refurbishment and regeneration rather than ground-up construction. From a valuation perspective, retail yields remain wider than those of logistics and prime offices, reflecting lingering risk perceptions. However, this repricing has created selective value opportunities where assets are well-located and adaptable.

**2026 investment stance:** Neutral / selective. Retail investment is best focused on dominant centres, retail parks, and mixed-use developments with diversified income streams.

## 5.5 Alternatives (BTR, Student Housing, Data Centres, Senior Living)

Alternative real estate sectors continue to attract growing investor attention due to strong structural demand drivers. Build-to-rent and student housing benefit from chronic undersupply relative to population growth and urbanisation, while senior living is supported by long-term demographic trends. Data centres, meanwhile, are experiencing rapid demand growth driven by digitalisation, cloud computing, and artificial intelligence.

Rental growth across these sectors has generally outperformed traditional commercial assets, supported by high occupancy levels and, in some cases, inflation-linked lease structures. Development pipelines are expanding, particularly for BTR and data centres, though progress is often constrained by planning, power availability, and high capital requirements.

Valuations in the alternatives sector remain relatively robust, with yields reflecting strong income visibility and long-term demand. While pricing is competitive, many investors view these assets as offering diversification benefits and resilience across economic cycles.

**2026 investment stance:** Overweight. Alternatives are expected to play an increasingly central role in diversified real estate portfolios.

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## 6. Residential & Living Outlook

### 6.1 Sales Market

While the number of listings in the market have risen [1], the provision of new housing supply in England further declines in the 2025-26 financial year. (See Table 1)

Table 1: Change in net additional dwellings in England, 2021 to 2026\*<sup>1</sup>

| Financial year (1st of April to End of March of following year) | Estimated net additional dwellings (new housing supply) in England | % change from previous Financial year |
|---|--|---------------------------------------|
| 2021-22   | 234,462  | +7.13%                                |
| 2022-23   | 234,292  | -0.07%                                |

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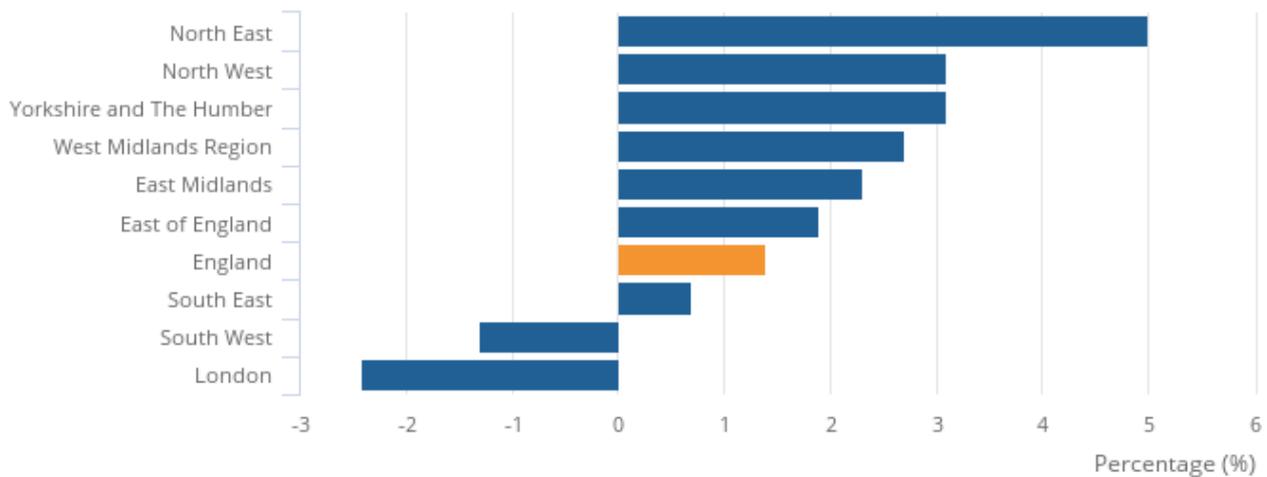
<sup>1</sup> Source: DLUHC [2][3]

|                             |         |         |
|-----------------------------|---------|---------|
| 2023-24                     | 221,409 | -5.81%  |
| 2024-25                     | 208,600 | -6.12%  |
| 2025-26 (up to 11 Jan 2026) | 158,700 | -31.44% |

*\*up to 11 Jan 2026*

Most surveyors are reporting falling levels of both buyer enquiries and instructions to sell in 2025. High numbers of First Time Buyers<sup>2</sup> (FTBs) in 2025 suggests that there is a smaller but committed set of buyers driving the market. [4]

Figure 2: Annual house price inflation, English regions (October 2025)



Source: ONS [5]

Mortgage affordability continues to improve as further base rate cuts are expected in 2026, on top of the December 2025 reduction to 3.75%, which may support demand. However, due to a weaker economic outlook in 2026, general buyer sentiment is likely weak. [4][6]

<sup>2</sup> 384,000 FTB mortgage completions over the 12 months to September 2025, the highest level since the Global Financial Crisis (excluding a brief post-Covid spike). Reference Savills Jan update [https://www.savills.co.uk/research\\_articles/229130/385659-0](https://www.savills.co.uk/research_articles/229130/385659-0)

## 6.2 House Price Forecast

UK house prices are forecast to rise moderately between 2-4% in 2026. Forecast differences beyond 2026 are largely due to different CPI assumptions used in calculations.

Table 2. UK House Price Forecasts, 2026-2029<sup>3</sup>

|                                      | 2026 | 2027 | 2028 | 2029 | Total |
|--------------------------------------|------|------|------|------|-------|
| Mainstream UK house price (Savills)  | 2.0% | 4.0% | 5.0% | 5.5% | 16.5% |
| UK house price (Cushman & Wakefield) | 3.1% | 3.0% | 2.9% | 2.7% | 11.7% |

Table 3. Regional House Price Forecasts, 2026-2030<sup>4</sup>

|                                 | 2026        | 2027        | 2028        | 2029        | 2030        | 5 years to 2030 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-----------------|
| <b>Yorkshire and The Humber</b> | 3.5%        | 5.5%        | 6.0%        | 6.0%        | 5.0%        | 28.8%           |
| <b>North East</b>               | 3.5%        | 5.5%        | 6.0%        | 6.0%        | 5.0%        | 28.8%           |
| <b>Scotland</b>                 | 3.0%        | 5.0%        | 6.0%        | 6.0%        | 5.0%        | 27.6%           |
| <b>Wales</b>                    | 3.0%        | 5.0%        | 6.0%        | 6.0%        | 5.0%        | 27.6%           |
| <b>North West</b>               | 3.0%        | 5.5%        | 6.0%        | 6.0%        | 4.5%        | 27.6%           |
| <b>West Midlands</b>            | 2.5%        | 4.5%        | 5.5%        | 6.0%        | 4.0%        | 24.6%           |
| <b>East Midlands</b>            | 2.5%        | 4.0%        | 5.5%        | 6.0%        | 4.0%        | 24.0%           |
| <b>UK</b>                       | <b>2.0%</b> | <b>4.0%</b> | <b>5.0%</b> | <b>5.5%</b> | <b>4.0%</b> | <b>22.2%</b>    |
| <b>South West</b>               | 2.0%        | 4.0%        | 5.0%        | 5.0%        | 3.5%        | 21.0%           |
| <b>East of England</b>          | 1.5%        | 3.5%        | 4.5%        | 5.0%        | 3.5%        | 19.3%           |
| <b>South East</b>               | 1.0%        | 3.0%        | 4.0%        | 4.5%        | 3.5%        | 17.0%           |
| <b>London</b>                   | 0.0%        | 2.0%        | 3.5%        | 4.5%        | 3.0%        | 13.6%           |

<sup>3</sup> Source: Savills [7], Cushman & Wakefield [8]

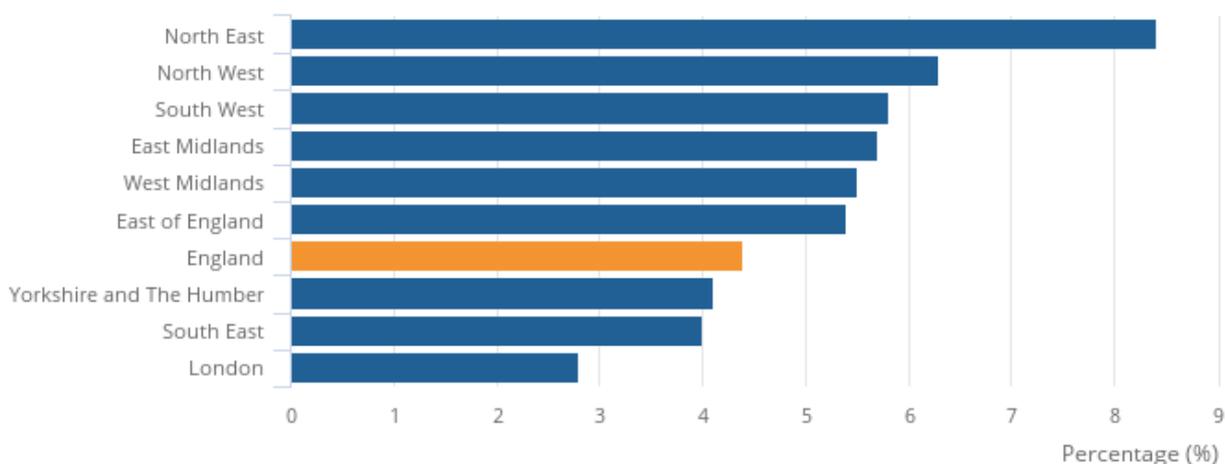
<sup>4</sup> Source: Savills [11]

### 6.3 Rental market

In 2025, rental growth continued to slow as demand cooled from the exceptionally elevated levels recorded in 2022 and 2023. This moderation has been driven by a combination of declining net migration, increased first-time buyer activity, and ongoing affordability pressures, which have led to a higher proportion of young adults remaining in or returning to the parental home. Reflecting these dynamics, average rents as a share of income declined from 33.4% at the end of 2023 to 32.4% by Q3 2025, indicating a modest easing in affordability pressures despite rent levels remaining historically high.

Despite softer demand conditions, the rental market remains structurally undersupplied. Survey evidence continues to point to a prolonged decline in landlord instructions to let, a trend that has persisted since 2017 and reflects sustained landlord exits from the sector. Market analysis also suggests that supply conditions have deteriorated further, partly as a result of ongoing buy-to-let sales visible in listings data. As a result, while demand has eased, the imbalance between supply and demand is expected to persist in the short to medium term, continuing to provide underlying support for rental values.

Figure 3. Private Rent Annual Inflation, English Regions, November 2025<sup>5</sup>



### 6.4 Built to Rent

Total investment volume in 2025 stands at a record £5.3 billion, a 6% annual increase.

In particular, £3.17 billion was deployed into Single Family Housing (SFH), accounting for 59% of all UK BTR investment in 2025. This is the highest annual volume on record and a 28% increase from 2024. [13]

<sup>5</sup> Source: ONS [5]

As of Q3 2025, UK's BTR stock stands at 153,367 complete homes, up by 25% compared to Q3 2024. [14]

In London, the recent announcements to boost housing delivery are predominantly focused on the for-sale market, however, the Home for London package outlines that BTR schemes which meet the criteria in London Plan H11 can provide affordable housing that is intermediate rent, with 30% at or below London Living Rent levels and 70% at a range of genuinely affordable rents. BTR may still benefit from CIL relief, whilst Purpose-built Student Accommodation (PBSA) and Co-Living have been specifically excluded. [15]

BTR developments outside of London are strongly concentrated in city centres and adjacent neighbourhoods - for example, Manchester and Salford local authorities contain 89 per cent of BTR stock in the Manchester primary urban area. [16]

While London accounts for 37.9% of UK's BTR stock (completed, under construction, and in planning) in Q3 2025, Birmingham and Greater Manchester are notable regional markets. [17][18]

### 6.5 Purpose-built Student Accommodation

PBSA is set to continue growing as current undersupply will ensure high occupancy remains robust and underpin outsized rental growth. [19] According to QS, UK international student enrolments are projected to grow 3.5% annually to 2030. [20]

However, student housing faces specific headwinds stemming from the Immigration White Paper published in May 2025. The proposal to introduce a 6% levy on fees for international students could dampen enrolment in the 2026/27 cycle, with the impact likely to fall disproportionately on lower-tier universities. [21]

### 6.6 Rental Forecast

Rental growth is expected to continue at a sustainable level. Softer labour market conditions and their impact on wage growth will place downward pressure on rents, while the ongoing shortage of rental homes will place some upward pressure. Similar to the sales market, UK rental growth is expected to outpace London given greater affordability pressures in the capital. [8]

Table 4. Mainstream Rental Forecasts, 2025-2029<sup>6</sup>

|                             | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2026-2030    |
|-----------------------------|------|------|------|------|------|------|--------------|
| <b>UK rents</b>             | 2.5% | 2.0% | 2.0% | 2.5% | 2.5% | 2.5% | <b>12.0%</b> |
| <b>London rents</b>         | 2.0% | 1.5% | 1.5% | 2.5% | 2.5% | 3.0% | <b>11.5%</b> |
| <b>UK household incomes</b> | 3.9% | 2.4% | 2.4% | 3.4% | 3.2% | 2.9% | <b>15.1%</b> |
| <b>CPI inflation</b>        | 3.8% | 2.6% | 2.3% | 2.1% | 2.1% | 2.0% | <b>11.6%</b> |

<sup>6</sup> Source: Savills [12]

Table 5. Prime Rental Forecasts, 2025-2029<sup>7</sup>

|                      | 5 YEARS TO DEC 2024 | 2025   | 2026   | 2027   | 2028   | 2029   | 5 YEARS TO 2029 |
|----------------------|---------------------|--|--|--|--|--|-----------------|
| Prime Central London | 13.9%               |  2.5% |  3.0% |  2.5% |  2.0% |  2.0% | 12.6%           |
| Outer Prime London   | 22.2%               |  3.5% |  3.0% |  3.0% |  2.5% |  2.5% | 15.4%           |
| Prime Regional       | 25.0%               |  3.0% |  2.5% |  2.5% |  2.0% |  2.0% | 12.6%           |

Source: Savills Research

Note These forecasts apply to average values in the second hand market, new build values may not move at the same rate.

## 6.7 Affordability ratio

UK's house price to income affordability ratio is forecast to fall to 8.2 in 2026, marking the fourth consecutive year of improving affordability for homebuyers, following a peak of 9.5 in 2022, when house price growth significantly outpaced earnings. [22]

Table 6. Affordability Ratio, 2021-2026<sup>8</sup>

| Year        | Average gross salary (median) | Average house price | Est affordability ratio |
|-------------|-------------------------------|---------------------|-------------------------|
| 2021        | £25,990                       | £238,403            | 9.2                     |
| 2022        | £27,774                       | £265,124            | 9.5                     |
| 2023        | £29,511                       | £262,602            | 8.9                     |
| 2024        | £31,600                       | £265,085            | 8.4                     |
| 2025        | £32,890                       | £272,995            | 8.3                     |
| 2026 est fc | £34,436                       | £280,830            | 8.2                     |

<sup>7</sup> Source: Savills [11]

<sup>8</sup> Source: Benham & Reeves [22]

## **6.8 Policy Impacts**

### **UK Budget 2025**

The UK Budget 2025 introduced a series of fiscal measures with direct implications for the residential property market, particularly at the prime end. From 2028, an additional Council Tax surcharge of between £2,500 and £7,500 per annum will apply to homes valued at £2 million or more. The policy is expected to have its greatest impact in central London boroughs such as Kensington & Chelsea and Westminster, which have the highest concentration of properties above the £2 million threshold. This so-called “mansion tax” is likely to act as a drag on price growth around the valuation threshold, creating a behavioural cap on pricing as buyers seek to avoid breaching the surcharge band [23].

However, early evidence suggests demand resilience in prime London locations. According to Benham & Reeves, buyer demand across London’s most prestigious neighbourhoods rose by 1.2% in Q4 2025, driven by notable increases in Chiswick, Regent’s Park, and Maida Vale [24]. This indicates that while the surcharge may influence marginal pricing, it has not materially dampened demand among high-net-worth buyers.

In addition, the Budget confirmed a two-percentage-point increase in property income tax from April 2027, raising basic, higher, and additional rates to 22%, 42%, and 47% respectively. Combined with the extended freeze on personal tax thresholds, these measures are expected to further constrain landlord profitability. As a result, some landlords may continue to exit the market, exacerbating supply shortages and placing upward pressure on rental values [23].

### **Renters’ Rights Act**

The Renters’ Rights Act represents a structural shift in the private rented sector, with significant implications for landlord behaviour and market supply. The abolition of Section 21 “no-fault” evictions will require landlords to rely on Section 8 grounds for possession, necessitating proof of specific legal justifications such as rent arrears, antisocial behaviour, or an intention to sell the property. This change increases procedural complexity and lengthens eviction timelines, raising perceived risk for landlords.

The Act also grants tenants the right to challenge rent increases once every 12 months where increases exceed open-market value. While intended to enhance tenant protections, these measures may reduce flexibility for landlords and further weaken investment incentives. Collectively, the reforms are expected to accelerate landlord exits from the sector, intensifying existing supply-side constraints and reinforcing upward pressure on rents [12].

### **New EPC Regulations**

Planned changes to energy efficiency standards will further affect landlord economics. From 2030, all privately rented properties in England and Wales will be required to achieve a minimum EPC rating of C, compared with the current requirement of EPC E [1]. The capital expenditure required to upgrade older or energy-inefficient stock is expected to be material, particularly in secondary and legacy housing.

These regulatory costs may prove prohibitive for smaller landlords or those with highly leveraged portfolios, potentially prompting further withdrawals from the private rented sector. In the medium

term, reduced rental supply is likely to translate into higher rents, particularly in areas with older housing stock and limited new delivery.

### **Social and Affordable Homes Programme 2026–2036**

The Social and Affordable Homes Programme (SAHP) for 2026–2036 represents a major intervention aimed at addressing long-term housing shortages. The programme targets a £39 billion total allocation and seeks to ensure that 60% of newly delivered affordable homes are for social rent. It also supports specialist and supported housing, community-led and rural developments, and increased council housebuilding through enhanced design flexibilities.

For the first time, metro mayors across England will have a formal role in shaping how and where affordable housing is delivered within their regions. Of the £27.3 billion allocated outside London via Homes England, £7 billion has been earmarked for six mayoral authorities, including Greater Manchester (£1.8 billion), the West Midlands (£1.7 billion), and the North East (£1.1 billion). While Homes England retains final funding authority, full devolution of decision-making is positioned as a long-term objective.

The programme also introduces greater flexibility for regeneration schemes. Registered Providers may submit portfolio-based bids demonstrating net additionality, with the definition broadened to include densification and the replacement of smaller homes with larger units to increase total bedspaces. Limited acquisitions of market-sale homes are permitted where they accelerate delivery or support specialist housing provision. Additional support measures include £2.5 billion in low-interest loans and encouragement for partnerships with impact investors. Notably, the Right to Shared Ownership will not apply to rented homes funded under SAHP, and 100% of first lets must be allocated through local authority nominations [25].

### **Homes for London Regulatory Package**

The Homes for London Regulatory Package is designed to unlock stalled residential delivery by addressing viability constraints. Key measures include temporary relief from the Community Infrastructure Levy (CIL) for schemes commencing before 31 December 2028, the removal of certain design requirements that limit density, and a time-limited planning route allowing schemes to proceed with 20% affordable housing, reduced from the standard 35%. Half of this reduced affordable provision will be eligible for grant funding.

Further measures include the removal of late-stage viability reviews where eligibility criteria are met and construction milestones are achieved by March 2030. The package also establishes a City Hall Developer Investment Fund with an initial £322 million allocation, supplementing the wider SAHP funding and low-cost lending via the National Housing Bank. A gain-share mechanism will apply where schemes fail to reach key milestones by March 2030, ensuring that upside from improved market conditions is shared between developers and communities [26].

Within the package, Build to Rent schemes that comply with London Plan Policy H11 may provide affordable housing in the form of intermediate rent, with 30% at or below London Living Rent levels and the remainder at genuinely affordable rents. These schemes may still benefit from CIL relief, whereas Purpose-Built Student Accommodation and co-living developments are explicitly excluded. Despite these incentives, it remains uncertain whether the reduced 20% affordable housing requirement will be sufficient to unlock delivery, as many schemes are currently pursuing viability arguments for significantly lower, or zero, affordable contributions [25]

## 7. Regional Market analysis

### London

#### I. Commercial

In 2025, London's commercial market remained strong, with occupiers continuing to prioritise Grade A office space. This focus on high-quality, well-located, and sustainable buildings helped maintain rental growth in key submarkets despite broader economic uncertainty. Prime locations such as Mayfair, the City, Canary Wharf, and the Tech Belt around Shoreditch and Old Street continued to attract both occupier demand and international capital, reinforcing London's position as a global investment hub. Logistics demand also strengthened further, particularly in outer London areas such as Barking, Dagenham, and Croydon, driven by sustained growth in last-mile distribution. In 2026, rental growth is expected to remain steady, though expansion may be moderated by affordability pressures and policy uncertainty.

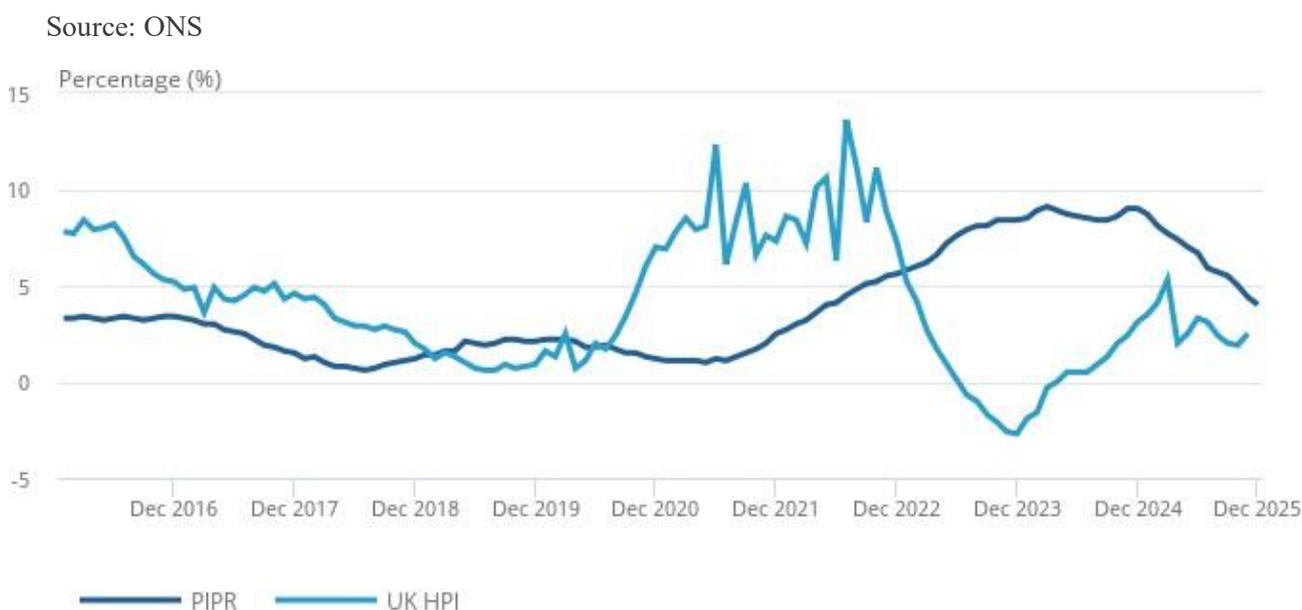
**Risk rating: (Moderate to high)** This reflects demand and liquidity for prime assets, offset by high pricing, limited supply flexibility, and exposure to global economic and capital market conditions.

#### II. Residential

London's residential market in 2025 remained constrained by affordability pressures and elevated financing costs, though prime and well-connected suburban areas continued to attract strong interest. Demand was driven by international buyers, domestic relocations, and the city's resilient rental market, which helped sustain liquidity despite lower overall transaction volumes. While house price growth was modest, rental values stayed elevated across much of the city, reflecting ongoing supply shortages and strong tenant demand. This trend is evident in national data (see Figure 1). Looking ahead to 2026, gradual easing in financing conditions may support slightly higher activity, but widespread affordability constraints are expected to keep price growth subdued.

**Risk rating: (Moderate)** Risk remains moderate due to resilient rental demand and international interest, offset by persistent affordability pressures and elevated borrowing costs.

Figure 4. UK private rents and house price annual inflation



## South East

### I. Commercial

In 2025, the South East commercial market benefited from improving occupier confidence, with demand focused firmly on modern, well-located office space in established centres such as Reading, Croydon, Guildford, and Uxbridge. (1) Leasing activity strengthened over the year, with take-up in the first half reaching 1.47 million sq ft, exceeding longer-term norms, while Grade A and prime offices accounted for over 80% of transactions, highlighting occupiers' preference for quality and energy-efficient buildings. (1) Supply remained constrained due to a limited development pipeline, supporting rental stability despite ongoing cost pressures. Liquidity improved gradually as pricing expectations adjusted, attracting interest from both domestic and international investors seeking relatively stable income. Looking ahead to 2026, constrained availability and continued demand for high-quality space are expected to support steady performance, although growth is likely to remain measured as occupiers remain selective.

**Risk rating: (Moderate)** Risk is moderate as stable occupier demand across offices and logistics is balanced by uneven local market performance and slower development delivery.

### II. Residential

The South East residential market in 2025 remained resilient, driven by persistent housing undersupply and sustained demand from commuters and renters priced out of London. Activity was strongest in well-connected towns along key transport corridors, where rental demand remained firm and liquidity relatively stable. While house price growth moderated over the year due to affordability pressures, rental values continued to edge higher, reflecting limited stock and strong tenant demand. Entering 2026, outlook points to modest price growth and continued rental resilience rather than acceleration, as easing financing conditions are offset by stretched affordability.

**Risk rating: (Low to moderate)** This rating reflects consistent buyer interest and the area's appeal to commuters, although high prices and cost of living pressures continue to limit activity.

## Manchester

### I. Commercial

In 2025, Manchester's commercial market stood out as one of the UK's strongest regional performers, led by the office and logistics sectors. Office take-up reached 581,500 sq ft in H1, the highest first-half level since 2019, driven by sustained demand from technology, professional services, and public sector occupiers, particularly in the city centre, Salford Quays, and South Manchester. Liquidity improved over the year, with both domestic and international investors attracted by relatively high yields and pricing that remains competitive versus London. Looking into 2026, constrained supply of Grade A space and ongoing occupier demand are expected to support rental growth, although rising development costs and longer delivery timelines may limit expansion.

**Risk rating: (Moderate)** Commercial risk is moderate, reflecting strong occupier demand and improving liquidity, supported by development delays and sector concentration.

## II. Residential

Manchester's residential market also performed strongly in 2025, supported by robust demand across both owner-occupier and rental sectors. Average house prices reached around £255,000, with rental demand particularly strong in the city centre, Ancoats, and Salford, driven by employment growth, university intake, and relative affordability compared with southern cities. Liquidity remained healthy, with high transaction activity and continued interest from institutional and private investors targeting build-to-rent and high-yield assets. For 2026, forecasts point to continued, albeit more measured, price growth and rental increases of around 4%, underpinned by limited housing supply and sustained population growth. (3)(4)

**Risk Rating: (Low to moderate)** Mostly due to population growth and strong rental demand, with supply constraints and rising build costs limiting expansion.

## Birmingham

### I. Commercial

There is continued rebound in occupier demand for quality office space in core zones such as the Colmore Business District and city centre. According to Cushman & Wakefield, prime rents firmed to ~£46/sq ft in 2025 with further upside in best-located stock. Availability of Grade B and C office stock has increased with the release of secondary stock, while Grade A availability continues to tighten at 1.6% vacancy rate. [6]

There is also a significant rise in demand for industrial property, driven by e-commerce, logistics, and relocation of manufacturing operations. Core occupier sectors - third-party logistics (3PL) operators, grocery retailers and advanced manufacturers - value Birmingham's central location with strong connectivity to UK motorway networks and intermodal freight flows and underpins demand for big box warehousing and distribution, although there are delays in decision making due to macroeconomic uncertainty. [7][8]

**Risk rating: (Moderate)** The combination of strong demand and limited availability of prime stock is expected to drive rental growth. Secondary products likely face liquidity challenges. Investment volumes are improving as confidence returns after repricing and higher rates. However, volumes remain below the Pre-Covid 19 Q1 five-year average (2015–2019), demonstrating cautious capital deployment. [9]

### II. Residential

The Build-to-Rent (BTR) market in Birmingham is recognised as the fastest growing regional market apart outside of London, aligning with national trend forecasts as UK BTR investment volumes reached a record £5.3 billion in 2025, according to Savills. [10][11]

**Risk rating: (Low to Moderate)** BTR market in Birmingham is expected to grow in line with national trends as the government continues to support BTR for the delivery of affordable housing. Birmingham's young population, supported by inflows of young adult migrants, is expected to support demand in the rental market. [12]

## Leeds

### I. Commercial

In 2025, the office market in Leeds was driven by a sharp increase in secondary stock take-up, marking a notable rebound in demand for lower-grade office space. [6]

On the other hand, prime office rents have surged, supported by limited availability, and demand from businesses seeking ESG-compliant, amenity-rich environments. Major projects - Wellington Place, Aire Park, and regeneration projects like Leeds Innovation Village - are attracting businesses in the city centre and catalysing rental growth. [13][14]

**Risk rating: (Low)** With a diverse commercial landscape across financial services, technology and health, and strong regeneration tailwinds, the outlook for offices in Leeds is overall positive.

### III. Residential

Regional house prices in Yorkshire and The Humber are forecast to grow at 3.5% in 2026, the highest above the UK average of 2% along with the North East. [15]

The size of the Leeds BTR market is set to more than double, with 7,000 units across the city in H1 2025 (operational + pipeline). There is a healthy development pipeline accounting for 61% of the 7,000 homes, but delayed delivery for some schemes will be expected due to challenges in delivering high rise buildings nationally, according to JLL. [16]

**Risk rating: (Moderate)** Macroeconomic pressures will likely impact buyer sentiment and budget, despite relative affordability compared to other regions.

## Edinburgh

### I. Commercial

Prime regional office rents have increased, with limited availability and solid occupier take-up (headline rents rising alongside regional peers). [6] The financial services and technology sectors provide steady employment and office space demand. [17]

**Risk rating: (Moderate to High)** With no major schemes currently under construction in the city centre, availability, especially prime, is expected to tighten further and put further upward pressure

on rents. There are supply side risks as despite the severe shortage of supply and rising rents, most developers remain cautious in committing to construction.

## II. Residential

The Scottish Parliament recently passed ‘the Bill’ under which ministers will be able to designate parts of the country as Rent Control Areas. Landlords within these zones may only increase rents in line with inflation plus one percentage point, capped at 6% per year. This will not apply to Mid-Market Rent, Build to Rent properties, or student accommodation. [18]

Student accommodation is set to be strong with high student-to-bed ratios in Edinburgh. [19]

The BTR market in Edinburgh may see a recovery in investor sentiment due to more certainty surrounding regulations. Limited development footprint within the historic core supports structural scarcity. Residential prices and rents are set to continue to rise as Edinburgh faces housing undersupply. [20]

**Risk rating: (Moderate)** Concerns around market and regulatory constraints have limited development, but investor interest may recover with more certainty in 2026.

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## 8. Scenario Analysis & Risk Transmission

This section presents a qualitative scenario framework outlining potential UK real estate market pathways through 2026 and the associated transmission of macroeconomic, financing, valuation and liquidity risks. The scenarios are not forecasts and do not rely on financial modelling; rather, they are based on assumptions reflecting different interest rate, capital market and policy environments. Together, they illustrate a range of outcomes and provide a structured lens through which to assess how risks may affect asset performance unevenly across sectors, locations and asset quality.

### Base Case: Moderate Recovery & Stabilisation

Under the base case, the Bank of England eases policy gradually through 2026, with rates declining but remaining above historical lows as wage pressures and global conditions limit the depth of cuts. Initial easing is expected from mid-2026, supporting sentiment without triggering a full credit cycle rebound.

Refinancing conditions improve selectively for investment-grade assets, supported by cautious lender appetite, while stress persists in secondary and legacy stock where higher exit yields and refinancing costs continue to weigh on values. Capital remains concentrated in core sectors and locations, with selective institutional expansion into alternatives such as healthcare and data centres.

Prime valuations stabilise with modest income-led uplift, while secondary assets continue to reprice. Residential prices grow modestly as affordability improves, with regional divergence persisting. Liquidity improves from 2025 lows but remains prime-focused, with secondary transactions clearing intermittently at risk-adjusted pricing. Risk transmission is driven by refinancing selectivity, asymmetric valuation outcomes and ongoing market polarisation, with ESG and policy acting as valuation filters.

## **Bull Case: Accelerated Recovery**

The bull case assumes faster and deeper rate cuts during 2026, driven by rapid disinflation and easing global yields, bringing policy rates below current market expectations. Lower financing costs and favourable FX dynamics catalyse renewed overseas capital inflows and a meaningful reopening of debt markets.

Yield compression resumes in prime and prime-adjacent assets, driving valuation growth and allowing ESG capex to be capitalised rather than dilutive. Transaction volumes rebound sharply, with liquidity extending beyond core assets as buyer depth improves. Financing risk diminishes materially, valuation risk shifts toward upside timing, and policy and ESG pressures become more easily absorbed by stronger pricing and capital availability.

## **Bear Case: Prolonged Stress & Extended Repricing**

In the bear case, interest rates remain higher for longer as inflation proves sticky and global conditions constrain policy easing. Elevated borrowing costs intensify refinancing stress, particularly for highly leveraged, secondary and legacy assets, with distress driven primarily by valuation-led LTV breaches.

Capital retrenches into the most defensive assets, limiting recapitalisation options in secondary markets. Downward repricing accelerates as yield expansion persists and income growth fails to offset higher discount rates, extending the correction into 2026. Liquidity contracts sharply outside prime assets, with forced sales, widening bid-ask spreads and longer marketing periods.

Regulatory intervention and rising ESG compliance costs further impair asset viability, amplifying downside risks through higher capex burdens and weaker lender and investor support.

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## **9. Conclusion**

The UK real estate market entering 2026 is characterised by selective opportunity rather than broad-based recovery. Although inflation has eased and monetary policy is loosening, financing costs remain structurally higher than in the prior cycle, placing greater emphasis on capital discipline, balance sheet strength, and asset quality. Liquidity conditions and refinancing dynamics continue to exert a stronger influence on pricing than headline demand trends.

Market polarisation has intensified across sectors. Prime, income-secure assets with strong ESG credentials and long-term demand visibility continue to attract capital, while secondary stock faces liquidity constraints and elevated refinancing risk. Logistics, living-led strategies, and operational real estate remain supported, though disciplined pricing and execution are increasingly important. In contrast, secondary offices and speculative development remain exposed to obsolescence, rising capex, and constrained financing.

Regionally, London and major regional cities retain long-term appeal, but performance is increasingly differentiated by submarket quality, supply conditions, and local economic fundamentals. Markets with strong population growth and limited new supply are best positioned to deliver resilient income, while weaker locations face prolonged adjustment.

Overall, the 2026 investment environment favours selective capital deployment, conservative underwriting, and income durability over valuation-led upside, particularly where structural demand aligns with constrained supply and robust capital structures.

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