

Real Estate Strategic Outlook: UK

Positive steps for the UK economy

Falling inflation, rate cuts and a new government

The UK economy has improved over 2024, though remains fragile at present. Growth has been supported by a notable fall in inflation and two subsequent interest rate cuts by the Bank of England. Further rate cuts in 2025 are expected to support household incomes, prompting improved consumer spending. At the same time, the new Labour government's focus on public investment should also promote economic recovery.

Improving sentiment feeds through to pricing

Early signs of price recovery for parts of the market

The UK has been by far Europe's most active real estate investment market over 2024, despite volumes remaining well below average.¹ Improved sentiment is a result of attractive pricing, a recovering economy and a more stable political environment. With liquidity increasing, there is growing evidence of early price recovery in select markets, and we expect this trend to broaden over the coming months. With that in mind, returns for UK real estate look slightly weaker over the forecast period, as some upside has already been realised in 2024.

Office: window of opportunity narrowing for City offices

Central London prime offices continue to be supported by robust fundamentals. Healthy demand and a limited supply of best-in-class space are driving strong prime rent growth, a trend we expect to continue over the coming years. Repriced trophy assets in Central London therefore remain a key strategy. However, the opportunity for excess returns appears to be diminishing in the City, as prices are already beginning to increase.

Residential: headwinds facing the UK PBSA sector

After several years of exceptional performance, operators are reporting weaker occupancy, as lower international student numbers, alongside growing affordability constraints, dampen demand. That said, an undersupply of student beds persists in many cities and solid performance is still achievable in select schemes. We expect affordable product, that can also be accessed by more cost-conscious domestic students, will prove more resilient. We also see opportunity in delivering much needed build-to-rent homes, working

alongside the new government to reach ambitious house building targets.

Logistics: Liquidity expected to drive fastest price recovery

Sentiment towards logistics remains strong and with capital increasingly targeting the sector, we expect yields will move in sharply over the next five years, supporting healthy returns. Given increased vacancy, location selection is crucial. The more supply-constrained urban and last hour locations around major regional cities, such as Manchester, will likely outperform. In London, however, vacancy has edged higher and affordability constraints are now limiting demand. As such, we expect weaker performance in the short term.

Retail: Time to return to UK retail?

After a prolonged period of correction, UK retail appears to have reached a point of equilibrium and there is growing evidence of recovering liquidity and increased transaction activity. While not all retail schemes will succeed, those that emphasise necessity, experience or leisure are likely to perform relatively well. In particular, UK retail parks look attractively priced and well-placed to outperform.

Prime Gross Total Return Forecast*, 2025f-2029f (% p.a.)



*Gross total returns minus capital costs

Source: DWS, Research HV forecast December 2024

¹ RCA, November 2024

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