

## Real Estate Strategic Outlook: UK

### A turbulent first half of 2025

#### Fiscal strain, geopolitical tensions and renewed inflation

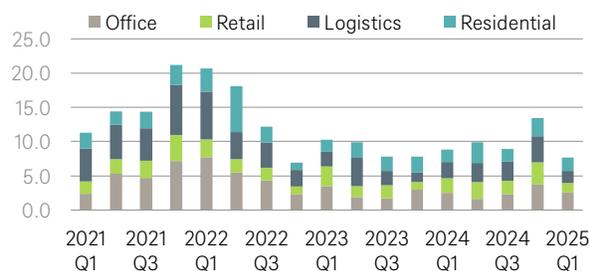
Following a stronger-than-expected start to 2025, the UK's near-term growth outlook has weakened amid a deteriorating global and domestic backdrop. Mounting geopolitical tensions, particularly around US tariffs, have heightened uncertainty, weighed on sentiment and created headwinds for economic growth. At the same time, inflationary pressures have resurfaced, prompting renewed caution and dampening expectations for monetary easing. That said, the DWS CIO view anticipates an additional 75 basis points of rate cuts over the next year, with rates projected to reach 3.5% by mid-2026.<sup>1</sup>

### Recovery may be delayed, but opportunities persist

#### Confidence hit by uncertainty, yet fundamentals remain robust

After a reasonable pick up at the end of 2024, UK real estate investment activity has slowed markedly in the first half of 2025.<sup>2</sup> Heightened macroeconomic and geopolitical uncertainty-alongside renewed bond market volatility-has led investors to adopt a more cautious stance. As a result, the price recovery seen in late 2024 has largely paused, and our expectations for near-term yield compression have moderated. Nevertheless, the medium-term outlook remains positive. Pricing is compelling, market fundamentals are broadly solid and rental growth prospects are healthy. Further yield compression remains a potential upside risk as confidence stabilises.

### UK Investment Volumes by Sector (£ billion)



Source: MSCI Real Capital Analytics, June 2025

### Residential: resilient and appear well-positioned for out-performance

The living sectors, such as build-to-rent and purpose-build student accommodation, look well-placed for outperformance, underpinned by strong defensive fundamentals. The UK's acute housing shortage persists, and despite government efforts to boost supply, development activity remains well below target. In London, viability concerns-exacerbated by the Building Safety Act-have led to a sharp decline in new starts, particularly for high-rise multifamily schemes. This backdrop supports value-add strategies focused on refurbishment, repurposing, including conversion and partnering with developers to deliver much needed housing.

In the PBSA sector, earlier concerns around international student numbers are easing. Increasingly restrictive policies in other countries, including the US, Canada and Australia, are likely to benefit the UK, which remains a global leader in higher education. Nonetheless, we continue to favour more affordable schemes that appeal to cost-conscious domestic students. With robust fundamentals continuing to support the sector, rental performance is expected to remain strong over the near to medium-term.

### Logistics: A focused and selective approach to investment

Amid ongoing global trade uncertainty, a more selective approach to UK logistics is warranted, and our forecast for near-term yield compression have moderated. However, certain segments remain resilient. The multi-let sector stands out, supported by strong tenant diversification and limited speculative supply compared to the Big Box market, which has kept vacancy comparatively low. Additionally, the logistics market in regions such as the West and North West of England appear well-positioned to benefit from increased defence spending, given the presence of major hubs for firms like BAE Systems and Airbus.

### Office: asset location is often more important than quality

Office occupiers are increasingly prioritising central, well-connected submarkets with strong amenities, reinforcing the critical role of location. In Central London, this favours submarkets such as the City Core and West End, where demand remains resilient. Well-located offices, even those outside the 'best-in-class' category, are expected to perform well and we expected continued strong prime rent growth over a five-year horizon given the lack of Grade A space. In prime areas, active asset management and targeted upgrades can further enhance performance and unlock long-term value.

<sup>1</sup> DWS CIO View, May 2025

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<sup>2</sup> RCA, May 2025

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