

WATLING 

Property Market Review

Focused for Insolvency Practitioners and Business Support professionals
dealing with Real Estate assets across the UK

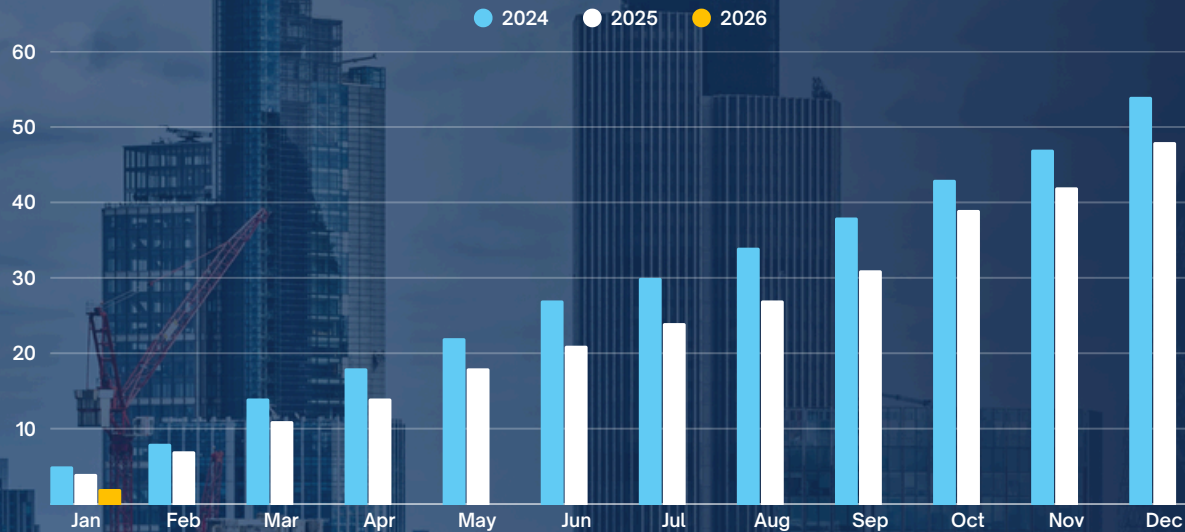


Q1 2026

Market Overview

Geopolitical conflict and inflation overshadow a market already lacking confidence

UK Investment Transaction Volumes (£bn, cumulative)



Source: MSCI, Colliers

Summary

- + The UK economy unexpectedly saw zero growth during January, below the 0.2% consensus view and the 0.1% growth recorded in December. Although growth did edge up slightly in the three months to the end of January, this shows that the economy continued to struggle even before the outbreak of the war in the Middle East.
- + Business confidence remains weak, with various surveys showing low and falling optimism about the outlook. Taxation, wage and other operating costs, and weak business pipelines are the main causes for concern. Confidence levels in the construction sector are well below the national average.
- + The year started particularly slowly for real estate, with early transactions data totalling around £2 billion, less than half the volume of activity seen in the previous two years. Living sectors remain a significant focus, with two hotel deals accounting for around a quarter of the total completed. Rental growth remains positive across all the major sectors and has improved significantly in the office sector, albeit that there remains a stark contrast between better quality properties and "the rest". London is also seeing more occupier and investor demand than the regions.

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Hopes that 2026 will prove to be a year of recovery were already being questioned before the eruption of the latest conflict in the Middle East. Some new product did come to the market with opportunistic buyers focussed in the sub-£2m segments, but this early activity plateaued even before the war began.

The rapid escalation of hostilities to encompass other countries within the region also saw the effective closing of the Straits of Hormuz, a key logistics route that is particularly vital for shipments of oil and gas. The economic and psychological impacts of events in Iran are many and widespread.

For UK real estate, the main effects are twofold. First, the disruption to trade and sharp increase in oil and gas prices threaten a resurgence in inflation. The Bank of England MPC normally disregard what they see as temporary distortions when setting interest rates, but if these are likely to persist and spread into the wider economy they are of greater significance. A rate cut had been widely expected prior to 28 February, but the BoE's latest decision to hold rates constant came as no surprise. Bond yields and swap rates had already spiked as investment market sentiment sharply reversed.

It is this change in sentiment that is the second key impact on real estate. The economic outlook for the UK is even less clear than it was, but with growth already sluggish the prospects for this year are not good. With a host of other uncertainties overhanging the property market, the much-needed recovery in investor confidence is unlikely to materialise until hostilities cease; when that will be is currently impossible to predict with any certainty.

0.2%

UK GDP growth in the 3 months to January

1.1%

Fcast 2026 UK GDP growth (OBR, March)

3.75%

BoE interest rate, March (held since Dec 2025)

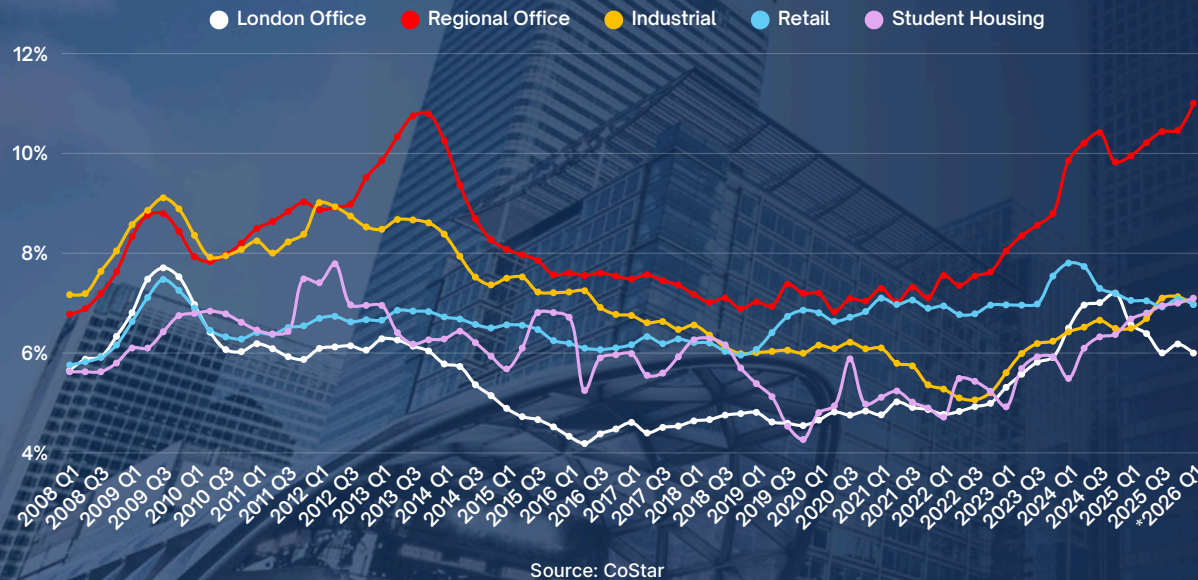
48 bps

Increase in UK gilts and 10 yr swap rate after 28 February

Yields

London bucks the trend as yields reveal ongoing investor caution

Commercial Property Yields (3-Period Trailing Average)



Summary

- + London office yields have seen significant compression, but this is highly focussed on the best quality properties. Rents are rising, particularly in Midtown and the West End. Regional office yields are rising sharply. Modest rental growth is evident at the very top of the market, but isn't sufficient to stimulate major refurbishments as high construction and finance costs are a significant headwind to repositioning secondary and tertiary assets.
- + Retail yields have fallen from the peaks seen in 2024 and the sector appears to be stabilising after years of pressure from the shift to multi-channel operations. Out of town and dominant shopping centres are performing best and demand is evident for prime high street units in strong catchments, but the prospects for poorer secondary pitches remain bleak.
- + The industrial sector saw a structural repricing in the decade following the Financial Crisis, driven by ongoing occupier demand across most segments and geographies. However, yields have been rising recently driven by the rising cost of finance and operator margin pressure, with rental growth stable but slower than seen in previous years.

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Generalising about yields can be very dangerous in the current environment where there are big contrasts between prime and secondary properties. Limited deal volumes mean that indicators can be volatile and the most recent data is usually incomplete and should be treated with caution. That said some clear trends are apparent.

The general upward movements in yields, which pushed down values in most sectors during the period of rising interest rates, has largely stabilised. We continue to believe that values of poorer quality properties in most sectors have further to fall, with sellers clinging on to outdated notions of value that are unlikely to be realised in the market. Elsewhere, low levels of development and reasonable occupier demand for good quality space are supporting rental growth prospects. Yields have been broadly stable recently, with the important caveat that events in the Middle East, and their implications for interest rates, have yet to become apparent in property pricing. Impacts on the economy could also slow occupier demand and constrain rental growth.

The key exceptions are in the office sector, where dramatically contrasting fortunes are evident. Central London is benefitting most from a gradual "Return To Office" by big corporations, with its high proportion of prime office space seeing strong demand from investors and occupiers. Yields are falling as a result. The picture in the Regions is very different, with non-prime yields under significant upward pressure. This looks like fundamental repricing rather than a short-term blip - consistent with weaker liquidity, higher obsolescence risk, and greater refinancing pressure. Lenders should be closely monitoring assets for LTV impairment, particularly if major lease events are on the horizon. Location is the key to repositioning viability.

4.7%

UK 10-yr Gilt Yield
(vs sub-1% in 2019-21)

4.5%

UK 10-yr Swap Rate
(mid-March 2026)

7.0%

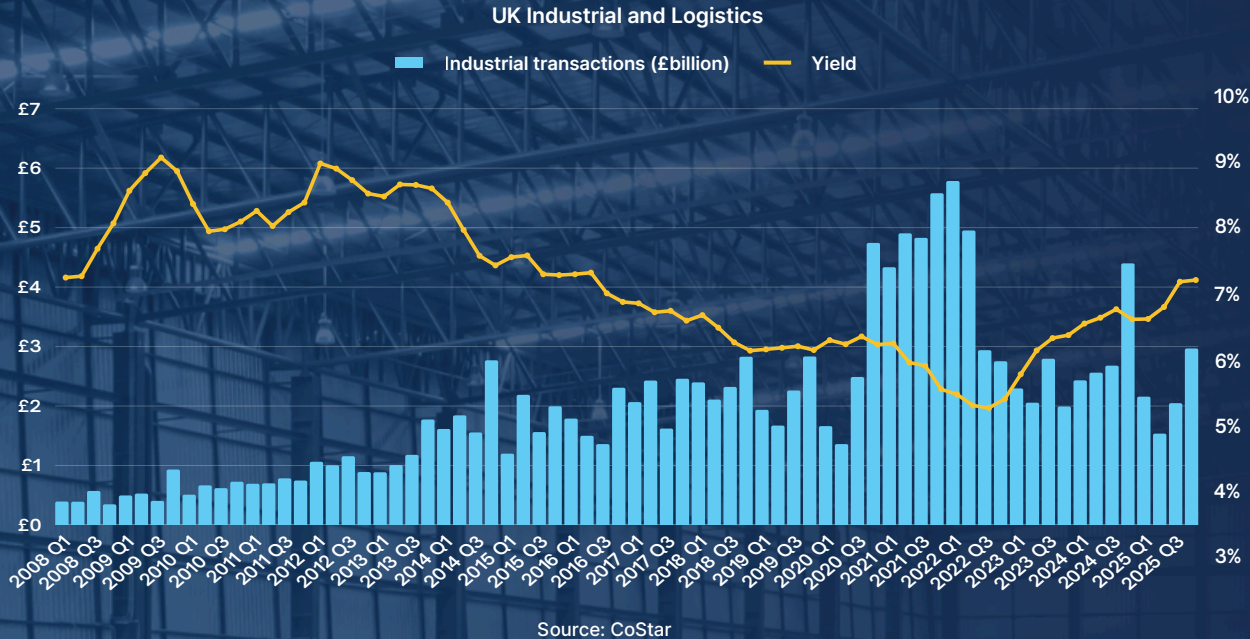
UK All Prop Equivalent Yield
(MSCI, Q1 2026)

+395 bps

Regional office yield since
Q1 2021 (CoStar)

Industrial Sector

Expectations of stabilisation but headwinds emerging for smaller operators



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The industrial sector has been one of the star performers of UK real estate over the last decade. Outsourcing of logistics operations by both manufacturers and retailers combined with the shift to online retailing drove seemingly limitless demand for Big Box units (100,000 sq ft +). The COVID pandemic accelerated the process as more retail activity shifted online. Smaller local units saw strong demand as multiple start-ups took advantage of this new competitive landscape.

These strong underlying dynamics have meant there has been relatively little distress in the sector, but more recently pressure has been starting to build. Demand for larger units has remained robust, but at some point supply will catch up, and rental growth will slow. Logistics is a low-margin business and rising operational costs, minimum wage increases and utility cost hikes are all likely to impact the sector during 2026. Furthermore, updated rateable values are due to take effect from April this year, reflecting the rental value of properties as at 1 April 2024. While other sectors may benefit, warehouse and logistics properties could ultimately see rates bills rise by up to 30% as a result of stronger rental growth over the past five years than was seen in most other sectors.

Whilst most major operators will be able to absorb these increases by passing on the impact to customers (and ultimately to consumers), smaller operators and freehold owner-occupiers are facing numerous headwinds. Significant tax increases and a weakening economy could see default levels rising at a time when demand for smaller leased units has been declining, with leasing of mid-box properties particularly weak last year. However, demand for second-hand freehold manufacturing units remains robust, which could offer recovery options.

Summary

- + This year was expected to be a period of greater stability in the sector after the volatility and rising yields seen recently, with demand holding steady and vacancy moderating as more constrained development and absorption of available stock brings a better balanced market. The majority of development is now build-to-suit and pre-let prior to construction. However, rising costs and the impending increase in rates bills for occupiers, coupled with the potential impact of the war in the Middle East, could herald further disruption and stress in some parts of the market.
- + Regional hubs are performing strongly, with a focus on ESG and rail-linked locations especially if they also have good connections for sea and/or air freight. Vacancy concerns due to oversupply in recent years mean development has become more constrained, which will support future rental growth.
- + Land shortages mean that the London market is structurally undersupplied, with "last mile" urban logistics still in strong demand. Vacancy rates are far lower than elsewhere in the country, putting upward pressure on rents. Higher density, multi-level warehouses are becoming more common to meet unsatisfied demand.

22%

UK logistics leasing growth (2025 vs 2024, CBRE)

-30%

Mid-box take-up 2025 vs 10-yr average (LSH)

7.1%

Vacancy rate, Q4 2025 (CBRE)

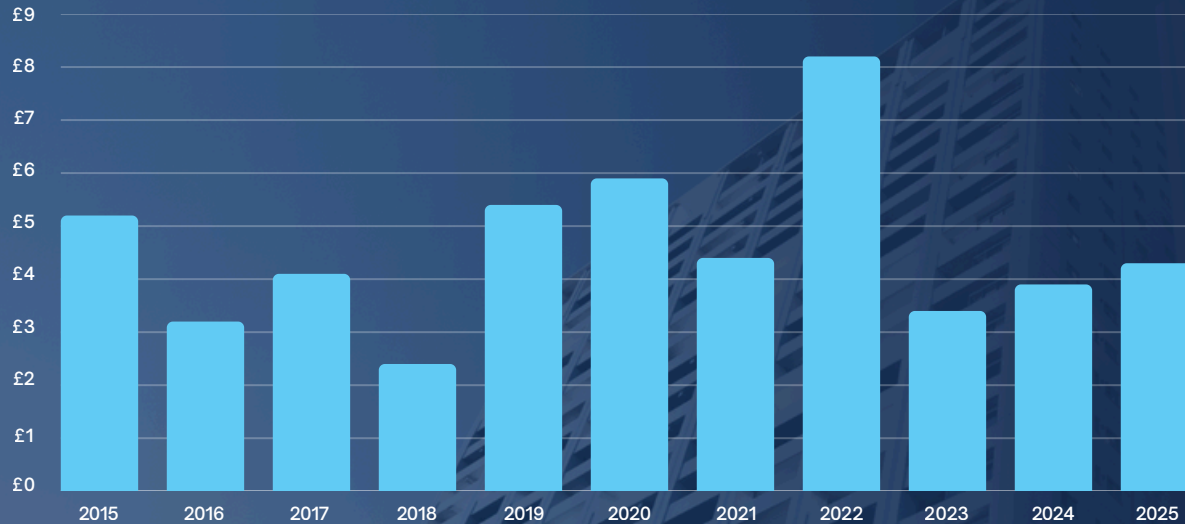
-28%

Industrial investment volume 2025 vs 2024 (CoStar)

Student Accommodation

Long term fundamentals solid but clear pressures evident in some markets

PBSA Investment Volume (£billion)



Source: Knight Frank

Summary

- + Long term demand remains robust given the UK's large student base and international appeal, although overall student numbers have fallen over the last couple of years. Fewer study visas, tighter regulations and stronger enforcement have had a major impact on overseas students, with total enrolments and new entrants declining by over 5% in 2024/5. EU student numbers are less than half their pre-Brexit levels and fell by over 15% last year.
- + Significant levels of development mean that some markets are now clearly oversupplied, including Belfast, Coventry, Leeds, Nottingham and Sheffield. All saw occupancy levels and rents decline last year.
- + Capital has continued to flow into the sector and whilst yield expansion has hit capital values, as it has in other sectors, investment volumes rose by 10% last year. The sector is consolidating as operators seek to build national platforms and investors look to build diversified portfolios. The fundamentals remain solid but increasing underwriting care is required given variations in scheme quality and local supply-demand conditions.

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Purpose Built Student Accommodation has seen strong investor interest over the last decade, given structural undersupply and the sector's relative insulation from the economic cycle. Historically students were reliant on smaller local private landlords, but the market has been rapidly institutionalising.

Overseas students aren't the only source of demand but are a key target. They are often able or prepared to spend more to secure greater security and quality than is typical in the private rented sector. Overseas student numbers have been falling, although the UK rejoining the European Erasmus scheme in 2027 will boost arrivals. However, the entire sector remains susceptible to political decision-making. This includes the Renters Rights Act, where PBSA providers will only be exempt if they have 1988 Housing Act "specified status".

Overall, the market remains undersupplied but rental growth has weakened significantly in recent years, and tenant incentives have become more apparent. Lenders need to pay close attention, particularly if they have exposure to oversupplied local markets. Increased operating costs and ever-greater student attention to affordability are putting pressure on PBSA landlords, especially the smaller operators who struggle to achieve the economies of scale available to bigger players.

Schemes that face difficulties are challenging because buildings are difficult to repurpose, and the highly cyclical annual leasing pattern means any enforcement action involving a change of ownership needs to be carefully planned.

£4.3 bn

Investment turnover
In 2025

4.4%

UK university rental growth
(2025, Cushman & Wakefield)

-6.1%

Decline in international
students in 2024/5

-68%

Fall in EU FT undergrads in
the UK, 2020 to 2024

London

80 Coleman Street, London EC2R 5BJ

Birmingham

75/77 Colmore Row, Birmingham, B3 2AP

Leeds

One, The Embankment, Neville Street, Leeds, LS1 4DW

Manchester

Tootal Buildings, 56 Oxford Street, Manchester, M1 6EU

Bristol

17-19 Berkeley Square, Bristol, BS8 1HB

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