

WATLING 

Property Market Review

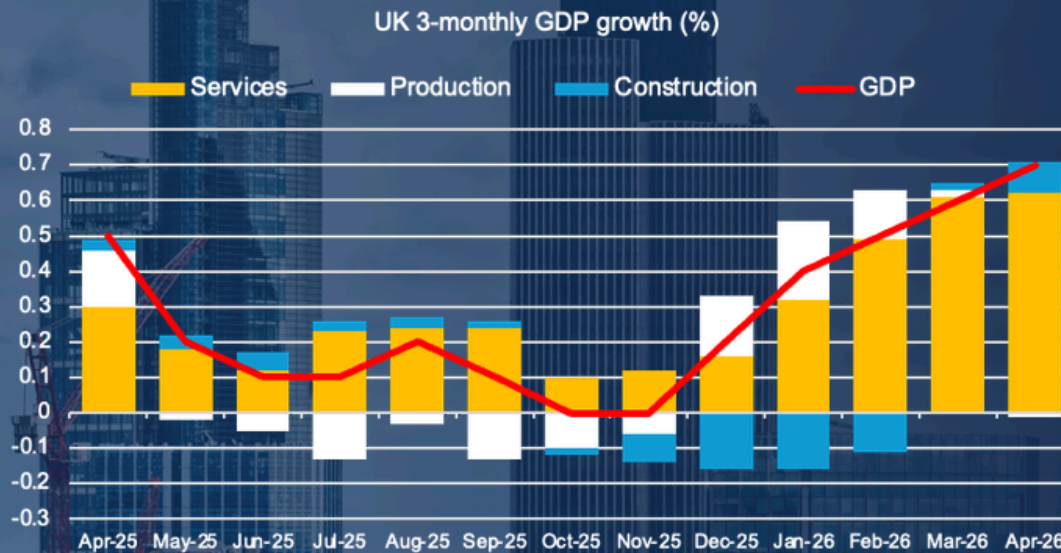
Focused for Insolvency Practitioners and Business Support professionals
dealing with Real Estate assets across the UK



Q2 2026

Macro View

Reasons for optimism need to be balanced by rigorous assessment of risks



Source: ONS

Summary

- + Despite a slight decline following the onset of the Middle East conflict, the UK economy grew by 0.7% in the three months to the end of April. Although growth remains weak in historic terms, the recent positive trend has been encouraging. A degree of caution is needed, however, as the full economic and inflationary impact of the war has yet to be seen in the data.
- + The Office for Budget Responsibility and Bank of England both expect growth of around 1% overall this year, which is below the 1.4% recorded in 2025. They also both expect growth to pick up to 1.6-1.7% next year, although the consensus from the Treasury Survey of Independent Forecasters is less optimistic about the strength of the recovery in 2027. Much will depend on whether a sustainable peace deal is agreed in the Middle East and how quickly inflationary pressures subside, enabling further cuts in interest rates.
- + The labour market is cooling with fewer vacancies and weaker hiring intentions; unemployment is currently 5.0% and likely to hit 5.5% by the end of the year. Better news on inflation and interest rates is needed to boost consumer confidence and disposable income, which will in turn feed through into the housing market.

WATLING VIEW

We still believe that the pre-conditions are in place for a more sustained recovery in the UK real estate markets. The announcement in mid-June of a preliminary deal between the US and Iran is clearly a positive first step in easing global geopolitical tensions and boosting economic growth, but it remains unclear whether this truly heralds a much-needed period of greater stability in the Middle East.

A sustained end to hostilities would provide a meaningful boost during the remainder of this year and into 2027. The main transmission mechanism is the re-opening of the Straits of Hormuz and thus lower energy prices, which would ease inflation, increase household disposable income, lower business operating costs and improve confidence. This would give the Bank of England greater scope to reduce interest rates, rather than the increases that are likely if inflationary pressures continue to build. Under this scenario, whilst UK GDP growth will remain sluggish for the next few months, it should strengthen into 2027 as inflation moves closer to target.

For real estate, lower interest rates and an improved economic outlook would support leasing demand and investment activity as well as the residential sector. We have long argued that confidence is the missing ingredient in the commercial market, and when positive signs start to emerge this could feed rapidly into sentiment, activity and pricing. Residential, logistics, Build-to-Rent and prime office assets are expected to be the strongest-performing sectors, with the latter benefitting from a growing shortage of good quality supply.

That said, challenges remain. Peace in the Middle East is far from certain, and - as we discuss elsewhere - real estate financing faces its own challenges. Whilst there is good reason to be cautiously optimistic, lenders need to remain highly vigilant in monitoring the risks in their loan books.

-0.1%

UK GDP growth in April 2026

1.1%

Fcast 2026 UK GDP growth (OBR, March)

3.75%

BoE interest rate, June (held since Dec 2025)

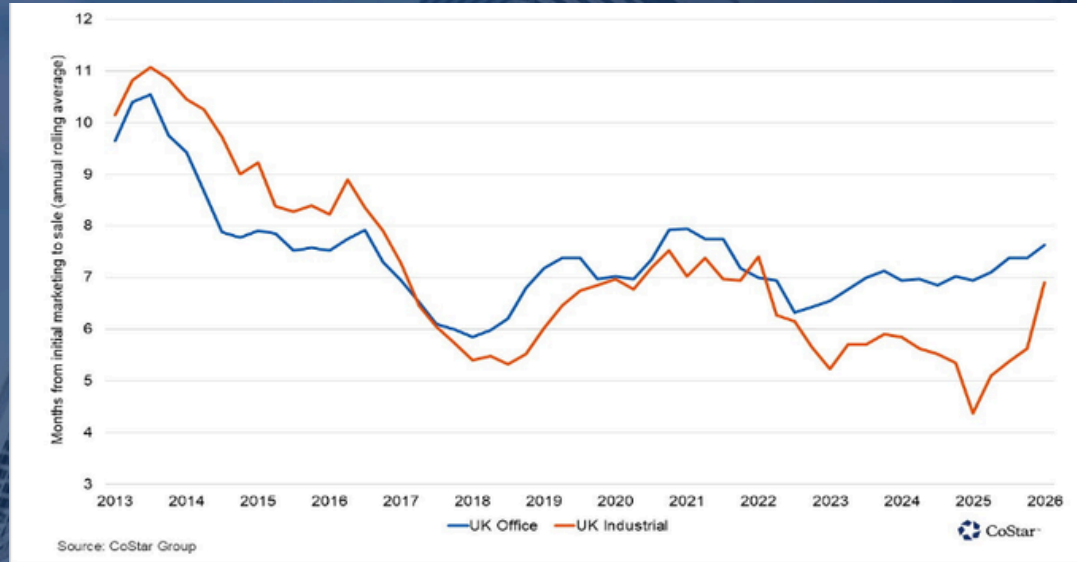
2.8%

UK CPI Inflation in May, down from 3.3% in March

Investment Market

Investor caution reduces new sale launches and extends deal times

Months from launch to sale completion (12m trailing average)



Source: CoStar

Summary

- + Office and industrial transaction times are at a four year high, with deals taking 7 to 7½ months from start to finish. These averages conceal wide variations, with top quality London offices signing in less than 5 months, as opposed to leverage-heavy industrial or development sales taking almost 9 months to complete.
- + The weak UK economy and concerns over inflation continue to keep bond yields elevated, which is impacting the cost and availability of debt finance. Leveraged buyers are less prominent in the market, with reduced purchasing power, highly selective investment criteria and extended decision-making cycles. In many cases, bidding is largely restricted to equity-driven investors who are more conservative in their pricing and the types of property they will consider.
- + Given the recent challenges facing the real estate finance sector an increase in enforcement-related sales appears almost certain, as we discuss elsewhere in this report. If this was to coincide with a genuine peace-deal in the Middle East, this could herald a significant uptick in the volume of transactions in the market and contribute to greater price transparency for challenged assets. Both of these would provide encouragement to hesitant sellers.

WATLING VIEW

Nervousness among investors can manifest itself in many ways in addition to, or sometimes other than, in pricing. This seems to be the case at present and recent analysis by CoStar bears out our own experiences in the market. The time taken to complete transactions has been rising steadily over the last 18 months, as investors continue to grapple with financing challenges, geopolitical issues and uncertainty over values. This makes the decision over whether to sell, and if so when, even more challenging than usual. Extended deal times increase cost and risk, with a greater likelihood of “chipping” (price renegotiation) or withdrawal by the buyer.

Unwillingness to risk tainting an asset due to an aborted or unsuccessful sale is limiting the number of properties being brought to the market. After a relatively strong first quarter, CoStar reports a sharp drop in sale initiations in April and May following the start of the war in Iran. Although highly selective in their requirements, there are plenty of potential buyers in the market with capital to deploy, particularly for good quality assets. Although yields are holding broadly stable, the evident mismatch in bid-offer pricing of any non-prime properties continues to hamper deals. This is discouraging sellers from coming to the market, which Savills regards as the key issue inhibiting a stronger recovery.

For lenders seeing distress in their loan portfolios and wondering whether to intervene, there are risks on either side of the argument. Holding out for an improvement in sentiment feels intuitively attractive. However, with forced or distressed sales set to rise, the current market with plenty of buyers and a shortage of realistically-minded sellers could be the best opportunity to maximise recovery. As ever, the key is to actively review loans at the asset level, utilising timely local market-based intelligence for decision-making rather than high level views of aggregate trends.

4.75%

UK 10-yr Gilt Yield
(late June vs 5% + in May)

-40%

Q1 UK Investment volume
vs 5-year Q1 average (CoStar)

5.9%

UK Avge Prime Yield
(Savills, end-May 2026)

7.6 mths

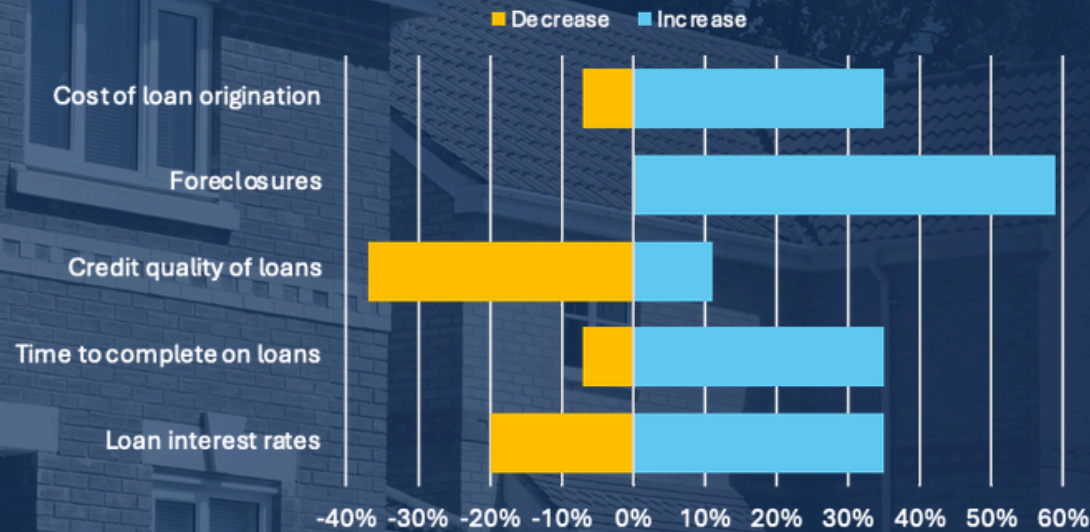
Avge UK office sale period
(vs 7.1 mths 5 yr avge; CoStar)

Real Estate Finance

Lender attention shifting from origination to securing a successful exit

WATLING VIEW

Causes for concern in 2026 amongst lenders



Source: 2026 UK Bridging Market Survey (Interpath/BDLA)

The market has long been bracing itself for a wave of “motivated” selling. This hasn’t materialised to date, but there are now clear signs that loan distress is likely to lead to an increase in disposals over the coming 18-24 months. Whilst the collapse of MFS into administration earlier this year may have involved malpractice, the problems faced by the company are symptomatic of the challenges facing the sector.

As part of the “alt lending” sector, MFS sourced capital from institutions and debt funds to lend at higher interest rates as bridging finance to developers and buy-to-let landlords, mainly in the London residential sector. They were therefore highly exposed to the slowdown in the market, and their collapse has highlighted the lack of transparency in this largely unregulated segment of the debt market.

Principal lenders will now be examining their portfolios carefully to identify exactly what exposure they have to MFS and other alt-players - who could come under similar pressure - and what assets sit behind these loans. This process will take time and will be expensive. They are also likely to be more vigilant in their due diligence, underwriting and documentation standards on new loans. They could also reduce the pace of their lending, at least in the short term as they review their current book. Private credit funds seeing rising redemption requests will be looking to free up capital by exiting loans, further reducing the supply of credit to the market.

The latest industry survey highlights that “a wave of loans originated in a more forgiving environment are now approaching maturity, and many will struggle to exit cleanly.” The bridging market’s next challenge is not origination, but managing exits, distressed loans, recoveries, property values and lender governance. Lenders of all types need to focus on developing and maintaining exit plans to ensure they can act quickly should stresses start to emerge.

Summary

- + Loans taken out during the era of ultra-low interest rates are now falling due for repayment. At the time of origination, values were rising, refinancing was easier, sales were quicker and extensions were easier to justify. All of these trends have reversed, with the market now expected to see increased restructures, workouts, distressed exits and receiverships.
- + Falling property values and slower sales rates are now viewed as one of the largest challenges facing borrowers over the next 12 months, but they also have clear implications for lenders in terms of exit/disposal strategies and refinancing assumptions.
- + Refurbishment remains the #1 reason why bridging loans are taken out, with failed schemes typically involving issues related to cost over-runs, contractor disputes and planning/building control. This is in addition to the major challenge of securing a buyer willing to take on the risk of an unfinished project, where decisions earlier in the design and development process may limit options for a new owner.

£11.5bn

Bridging & Development
Lenders Assocn loan book

59%

Respondents expecting
foreclosures to increase

46%

Respondents expecting
institutional funding to fall

37%

Respondents expecting
credit quality to deteriorate

Source: 2026 UK Bridging Market Survey (Interpath/BDLA)

London Residential Market

Weak pricing and low volumes creating pressure for developers and lenders

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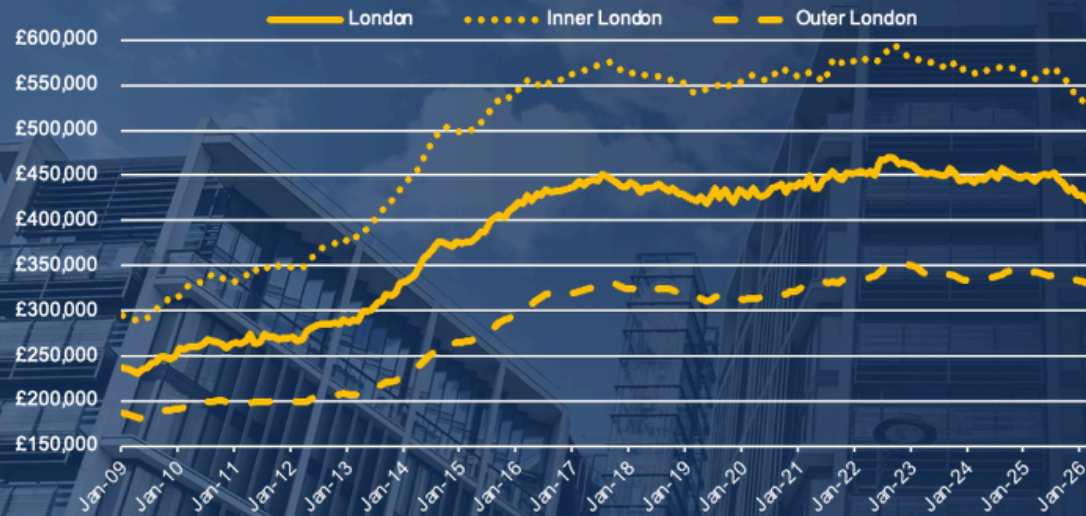
London's residential market over the last two years has become increasingly "two-speed", with marked divergence between prime central locations and outer boroughs, and between apartments and houses. Sales volumes across London have been running at the weakest levels since the GFC, apart from the pandemic period.

The apartment sector has been the softest part of the market, especially in Zones 1-2 and the prime segment above £1 million, with prolonged price weakness and slower liquidity. Average London prices are over 10% below their peak, with prime properties down 15-20% or more. However, our recent experience of dealing with distressed schemes suggest pricing declines can be more extreme at the individual asset level. At the high-value end of the market, conditions remain challenging. Super-prime buyers are increasingly price-sensitive, and discounts to asking prices have widened materially.

The implications for developers of new-build apartments are significant. New-build sales volumes in London have reportedly fallen to record lows, with rising levels of completed but unsold stock. The decline in off-plan investor demand has also constrained development financing, since many schemes historically relied on presales to secure debt funding. New-build apartments in the capital typically re-trade 15-20% below their purchase price after a couple of years as the "new build premium" is eroded. This places further pressure on pricing of subsequent phases of a scheme.

Looking ahead, easing interest rates may gradually improve sentiment and affordability, and supply shortages may ultimately support medium-term values, but near-term conditions for apartment developers will remain difficult. With increasing pressure on margins, viability and delivery pipelines, further distress appears inevitable.

Average Selling Price, London Flats



Source: ONS

Summary

- + London buyers have been under similar pressure to the wider residential market due to tax changes, rising service charges and materially higher financing costs. Overseas demand, which is a key component of the market in the capital, has also been weaker due to global instability compounded by tax and political uncertainty in the UK ... which will not be helped by a seventh Prime Minister in just 10 years.
- + In addition to pricing and sales volume difficulties, developers face pressure from construction inflation, labour shortages, stricter building safety regulation, planning delays and higher affordable housing obligations. These are not unique to London but are felt most acutely in this highly competitive market where pricing tends to be more volatile than elsewhere in the country.
- + The collapse of MFS has raised further concern, as the group operated numerous different companies in the London residential market. This begs the question as to whether all the deals they financed were truly arms-length and thus whether their activities distorted pricing in the thinly-traded premium residential market.

£431,455

Average London apartment price, April 2026 (ONS)

-11.9%

Average Inner London apt price, (vs peak in Sept 2022, ONS)

-4.8%

Prime central London prices (yr to March, Cluttons)

-24%

Prime central London sales (Q1 y-o-y, JLL)

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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