

An aerial view of the London skyline, featuring prominent skyscrapers like the Gherkin and the Shard. The image is overlaid with a semi-transparent blue filter. The Watling logo is positioned in the top left, and the main title is centered. A blue button with a right arrow and the text 'Q3 2026' is located in the bottom left.

WATLING 

Property Market Review

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

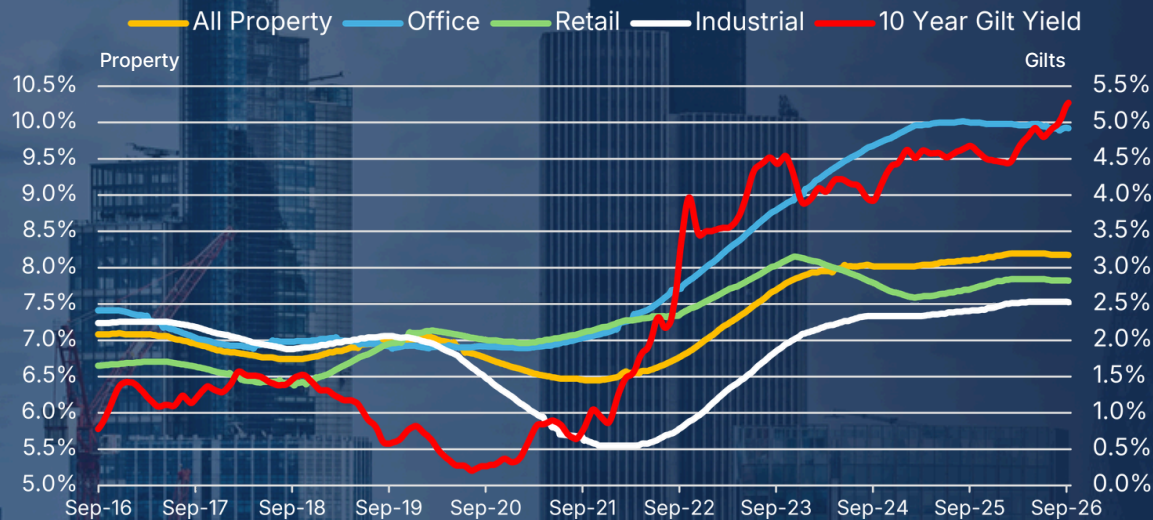


Q3 2026

Macro View

Conflict in the Middle East still dominates an otherwise more positive outlook

Property and 10 Year Gilt Yields



Sources: Bank of England, CoStar, Watling Real Estate

Summary

- + Although economic growth still remains weak in historic terms, the recent positive trend has been encouraging. GDP grew 0.6% in Q1 and 0.4% in Q2, followed by 0.4% monthly growth in July.
- + 10-year gilt yields have spiked sharply in recent weeks, rising to well over 5% and hitting their highest level for nearly 20 years. 30-year gilt yields have also spiked to almost 6%, reflecting investors' long-term concerns about inflation in the UK. This has significant implications for debt finance as commercial lending rates reflect these pricing signals from the money markets, suggesting debt costs will remain elevated for some time.
- + The relationship between gilts and property yields is far from straightforward, but it does exist. All other things being equal, a sustained rise in gilts will eventually feed through into higher real estate yields. Improving rental growth and/or a reduction in the risk premium applied to property may moderate or overwhelm this impact ... so stronger sectors could still see yields fall. Conversely, secondary or tertiary assets with weaker income profiles, often seen as increasingly risky in the current market, could be set for significant further falls in value as yields rise.

WATLING VIEW

As we suspected, hopes that the Middle East would see a lasting peace quickly proved to be over-optimistic. As a result, international concerns continue to overshadow what has been a broadly improving domestic picture. The UK economy has performed better than expected in 2026, with growth during the first half of the year continuing through at least the early part of the summer. Whilst not spectacular, this is a distinct improvement on 2025.

The principal challenge is inflation, which remains stubbornly high. Global oil prices have spiked once again, which will feed through into higher costs across most western economies. As a result, government bond yields have spiked in recent weeks as investors have become even more concerned about future inflation. The arrival of a new prime minister, coupled with ongoing concern over the state of the UK's public finances, has accentuated the impact on the UK, where gilt yields have risen by over 50bps since June. With inflation expected to rise for the remainder of the year, the BoE has absolutely no scope to cut interest rates. Commentators are currently split on whether we will in fact see a rate increase during the autumn, and John Healey's first Budget will be closely watched in late October.

With interest rates now set to remain at or above their current level well into next year, there are some significant implications for real estate. Prime offices, logistics, the living sectors and prime retail have the strongest fundamentals, while secondary offices and weaker retail remain highly challenged. Income and rental growth is the key to performance, with capital values remaining constrained by elevated financing costs and investor caution. The recent spike in gilt yields will put more pressure on property values, especially in the weaker areas of the market. Lenders should pay particular attention to the income characteristics of assets, as these are set to remain the critical determinants of value ... particularly in the event of any distress.

-0.4%

UK GDP growth in July 2026

1.2%

Fcast 2027 UK GDP growth (Consensus)

3.75%

BoE interest rate, June (held since Dec 2025)

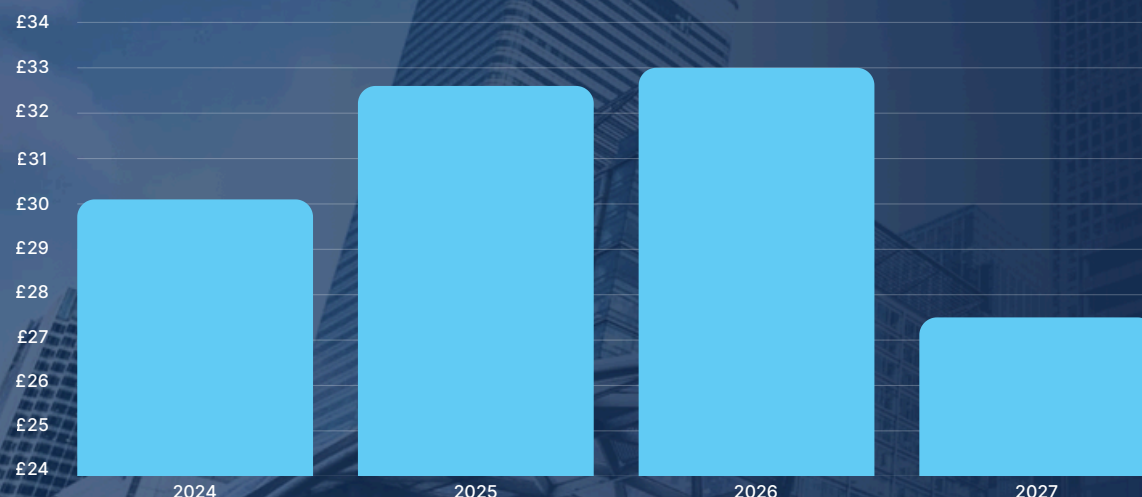
3.1%

UK CPI Inflation in August, vs 2.9% in July

Refinancing

Rising tide of maturities where new financing may no longer be viable

UK Commercial Real Estate Debt Maturity (£bn)



Source: Commercial Real Estate Lending Report 2026 (Bayes Business School)

Summary

- + The current surge of loan maturities is not just a UK issue. There is also a wave of loans falling due in Europe, with the peak a year or two behind the UK reflecting the slightly later high point in transactions during the last cycle. S&P report that there are \$1.26 trillion of US commercial mortgages scheduled to mature in 2027.
- + Many UK loans falling due in 2024 were extended on a short term basis, exacerbating demand for refinancing over the last 18 months. Almost two thirds of all commercial real estate lending in 2025 was for the renewal of existing loans, and 2026 is now the peak year for refinancing demand, according to Bayes Business School.
- + A major issue for the majority of borrowers is that the rental income from the asset is often insufficient to support a new loan at higher interest rates. Many borrowers with floating rate debt, where the rate has already reset to a higher level, are already facing such difficulties in advance of their maturity date. Bayes report that 13% of all outstanding loans (around £22bn) have a current ICR of less than 1, with a further 15% sitting between 1 and 1.4 – suggesting that they are perilously close to defaulting if income levels fall at all.

WATLING VIEW

The recent weakness of the UK economy put a clear focus on the strength of the occupier market as a driver of distress. However, challenges around refinancing are now seen as equally significant, if not more so. Elevated risk and volatility are already priced into the debt market and there is plenty of credit available to be deployed. The issue is whether borrowers can make refinancing stack up in the first place.

2026 represents the peak year for UK maturities in the “Refinancing Wall” that is hitting the global real estate market, but next year will look broadly similar. These loans were taken out at a time when financing costs and lending criteria were much easier. Banks were lending aggressively even against high property valuations because of expectations of strong rental growth. Today, higher gilt yields and swap rates mean that all-in finance costs are closer to 6-8% than the 2.5% when loans were initiated. Interest cover is already perilously thin in many cases, and often unable to support higher interest costs. With property values now well below the levels when these loans were taken out, tighter LTV criteria mean that borrowers will need to inject significant equity for a refinancing to be viable.

It is the usual suspects that are under most pressure: secondary offices, weaker high street retail and development loans (particularly in the residential sector) along with smaller investments in regional centres. With little prospect of falling interest rates bailing out existing owners, lenders need to actively prepare for default. Contingency planning is key, with an emphasis on proactive asset management, maintaining income and tenant relationships. For many investors, the issue is no longer who will provide the finance, but whether refinancing is viable at all in the current market. Where it is not, lenders may need to act quickly to protect the value of the asset.

£92bn

UK debt maturing 2025-7
(Bayes Business School)

60%

Refinancing proportion of all
property lending in 2025 (Bayes)

28%

Proportion of loans with
ICR below 1.5% (Bayes)

12%

Bridging loans for “re-bridging”
vs 7-10% historically (BDLA)

Data Centres

Current popularity with investors risks a dangerous inflation of values?

UK Data Centre Capacity and Development Pipeline



Sources: Savills, Barbour ABI

Summary

- + Data centres have been the top ranked European sector for investment and development attractiveness for the last two years, according to the ULI/PwC Emerging Trends survey, and have been in the top 5 in each of the last 6 years.
- + Data centres are measured in megawatts (MW) of power usage rather than sq ft, as this is what determines capacity. Developers can easily fit more servers into a room than the building can power or cool. A small 10 MW data centre consumes as much power as a mid-size town of 30,000 homes. A large data centre hub requires closer to 400 MW (or 0.4 gigawatts), equivalent to the power usage of Birmingham or Manchester.
- + Current live operational capacity plus centres actually under construction total nearly 3 GW. However, the current pipeline of schemes in the queue for a power grid connection totals 73 GW across 315 projects ... over 1.5x the peak power consumption of the whole of the UK. Of these around 70 projects totalling 20 GW are funded and ready to develop. However, the National Grid estimates it will only be able to connect 9.5 GW between now and 2031. This means that most schemes face lengthy delays and the vast majority of the speculative pipeline will never actually be built.

WATLING VIEW

In late 2022, the launch of ChatGPT saw it become the fastest-growing consumer software application in history, triggering an explosive expansion of demand for data centres to support generative AI. There is no question that the sector can continue to see further growth well into the future. That does not mean it is without risk.

Much of the current demand for data centre funding relates to the development of new centres, which is an exceptionally expensive undertaking. Based on work done by PwC, Knight Frank and JLL, around 60% of the value of a data centre lies in the computer chips and server racks, which require upgrading every few years. A further 15% sits in the immense power and cooling infrastructure required, with around 25% of value residing in the land and buildings. However, the power requirement for these centres is so huge that they cannot simply tap into the local electricity grid. They need a bespoke connection direct into the high-voltage power network at a suitable substation with sufficient capacity. Such locations are limited, and there is currently a multi-year waiting list for a connection slot. In practice, therefore, investor/developers are buying power rather than real estate ... as Knight Frank argue: "Power, not location, now defines value."

If investors are paying significant premiums for sites because of expected future power availability, there is a serious risk that such a connection may not materialise; or that evolving tenant demand or technological change could overtake the development prior to its completion. Real estate markets have repeatedly seen periods of boom and bust driven by investor convictions about a particular sector. The eventual correction was rarely because the underlying theme was wrong; it was because investors paid too much for the growth story. There are many factors which could undermine the eventual viability of a specific site or asset, and lenders should ensure that alternative-use value is always a significant part of their assessment when considering their exposure to this most popular of real estate sectors.

£25-35bn

Current cycle data centre debt requirement (techUK)

100 million

ChatGPT users within 2 months of launch

73 GW

Data centre power connection queue (Ofgem)

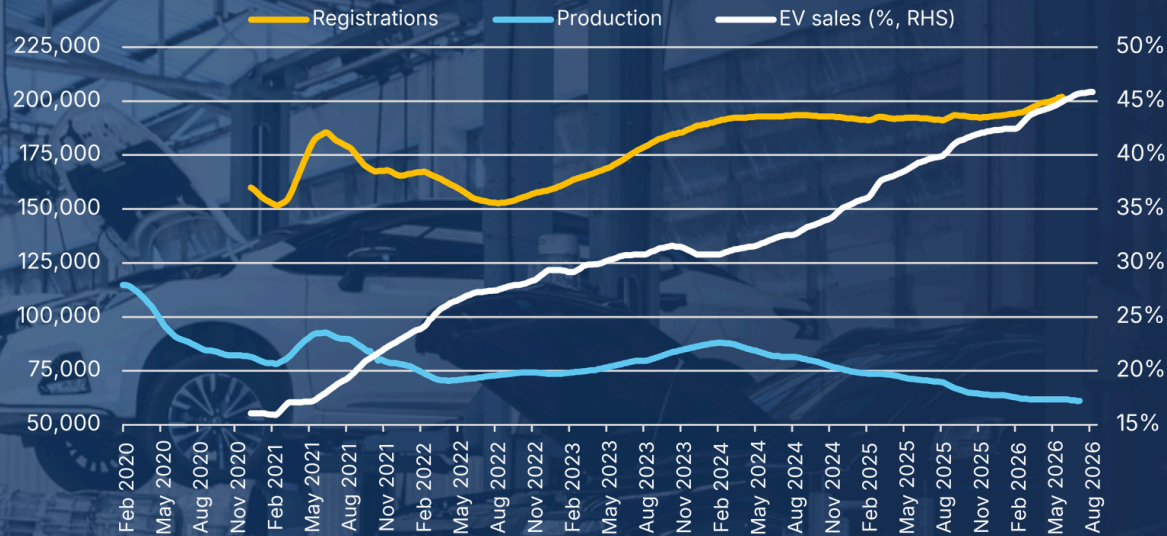
9.5 GW

Data centre capacity National Grid expects to connect by 2031

Automotive Sector

A sector in transition that is also becoming highly politicised

UK Vehicle Production and Registration (12m average)



Source: ONS, SMMT

Summary

- + Vehicle registrations, which are effectively equivalent to sales, have recovered in recent years and have been improving during 2026. However, over 90% of these vehicles are imported, meaning that UK registrations are a poor indicator of demand for UK vehicles. Conversely, over three quarters of all domestic vehicle production is exported – mainly to Europe and to a lesser extent the US. Sales to Asia have been declining significantly over the last decade.
- + Sales of electric vehicles (including hybrids) have accelerated particularly quickly. From a share of around 15% at the start of the decade, electric and hybrid vehicles now account for almost half of all new registrations. Encouragingly, in contrast to overall vehicle production, domestic EV production is also increasing. While total output fell by 15% last year, electrified vehicle production grew by over 8%.
- + However, the nature of the sector and the changes it is undergoing mean that many assets are exposed to shifts in the UK's international competitiveness; political disagreements over trade, subsidies and tariffs; and the rapid pace of technological obsolescence.

WATLING VIEW

The UK automotive sector has seen a recovery in vehicle sales whilst domestic production has continued to fall. The significant structural and technological changes underway mean that automotive-related property assets may appear stable but harbour risks of obsolescence and redundancy, which in turn can impact value recovery in the event of loan distress.

On the manufacturing side, the sector supports a huge network of smaller component suppliers whose own supply chains extend deep into local and regional economies. However, such suppliers are often tied to one end-manufacturer, with tight margins and highly leveraged. The rapid growth of electric and hybrid vehicles, which have accounted for around half of all vehicle sales so far this year, means they are also potentially exposed to component obsolescence. The major manufacturer landscape is also changing rapidly. Competition, particularly from China, is accelerating the displacement of traditional European brands (who themselves did the same thing to UK brands in previous decades). This creates franchise and obsolescence risk for suppliers and dealerships, potentially increasing consolidation.

This may not be a problem at an aggregate level so long as major groups continue to source components and assemble vehicles in the UK, even if the vehicles produced are predominantly for export. However, this is far from guaranteed, as the recent announcement of cutbacks at JLR suggests. The influx of Chinese capital is also highly political and could be subject to government intervention at some indeterminable point in the future. Lenders should ensure that they are aware of their exposure to different aspects of the automotive sector and the risks that this may entail. A focus on alternative-use value is critical given that facilities that appear core today may soon become redundant as vehicle technology continues to evolve.

75%

Share of UK vehicle production that is exported

765,000

UK vehicle production 2025, lowest level for 73 years (ONS)

121%

UK Sales of Chinese brand vehicles H1 2026 vs H1 2025

41%

Electrified vehicle share of UK vehicle production, 2025

London

80 Coleman Street, London EC2R 5BJ

WATLING

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

watling.com

Watling Real Estate Limited registered in England and Wales number 12274226. Registered office, Office 107, 128 Aldersgate Street, Barbican, London, England, EC1A 4AE. Regulated by the RICS.

This brochure has been prepared by Watling for general information purposes only. Whilst Watling endeavours to ensure that the information in this brochure is correct it does not warrant completeness or accuracy. You should not rely on it without seeking professional advice. Watling assumes no responsibility for errors or omissions in this publication or other documents which are referenced by or linked to this brochure. To the maximum extent permitted by law and without limitation Watling excludes all representations, warranties and conditions relating to this brochure and the use of this brochure. All intellectual property rights are reserved and prior written permission is required from Watling to reproduce material contained in this brochure.