OakNorth Sector Pulse

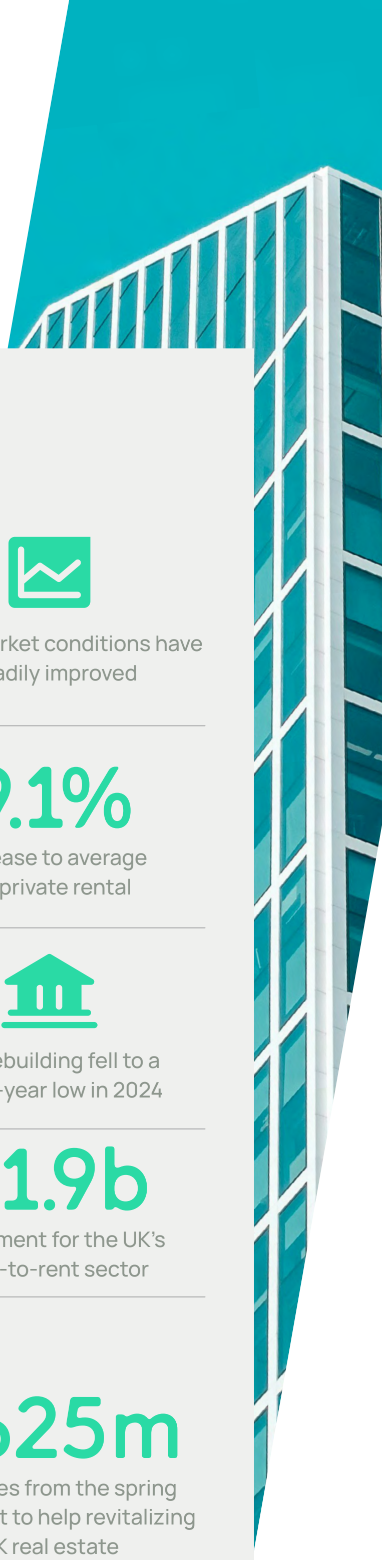
REAL ESTATE

April 2025

OakNorth

Industry overview

In this month's Sector Pulse, we provide an updated view of the UK real estate market, covering residential, build-to-rent, office, retail, and industrial sectors. We explore recent trends and offer our outlook for the coming six months.



Residential and build-to-rent

RESIDENTIAL AND BUILD-TO-RENT I The last six months

Overall market conditions have steadily improved over the past six months, driven by strong wage growth and falling mortgage rates, that boosted confidence among buyers and therefore resulted in an increase in market activity. Furthermore, while affordability also improved over the last months, this metric remains stretched when compared to historical norms.

Overall market conditions have steadily improved

According to ONS data, as of December 2024, average UK private rental increased by 9.1%, up from 8.7% in October 2024, as annual renewals at higher rental amounts started feeding into broader market rents. Regionally, rental inflation was highest in London (11.6%) and lowest in Yorkshire and The Humber (5.7%).

9.1%

Increase to average UK private rental

Changes in various planning laws and a fundamental lack of homes being granted permission, is putting pressure on the UK government's plans to build 1.5m new homes in this government. Savills' housing data as of February 2025, revealed that housebuilding fell to a seven-year low in 2024, due to these factors.

Housebuilding fell to a seven-year low in 2024

Q4 2024 saw significant investment volumes for the UK's build-to-rent sector, with £1.9b transacted, helping investment volumes surpass £5b for the first time, indicating strong investor confidence.

£1.9b

Investment for the UK's build-to-rent sector

In her Spring Statement on March 26, Chancellor Rachel Reeves unveiled several initiatives aimed at revitalizing the UK's real estate sector. Central to these is an additional £2bn investment in the Affordable Homes Programme, supporting the government's ambition to build 1.5m homes by 2030. This funding is expected to facilitate the construction of up to 18,000 social and affordable homes. To address labour shortages in construction, £625 million has been allocated for training up to 60,000 new skilled workers. These measures collectively aim to enhance housing supply, stimulate economic growth, and improve affordability in the housing market.

£625m

Initiatives from the spring statement to help revitalizing UK real estate

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The Building Safety Regulator (BSR) is causing severe delays to UK housing delivery, particularly for high-risk buildings (HRBs). Gateway 2 and 3 approvals are taking up to 12 months in some cases, with over two thirds of Gateway 2 applications rejected due to vague requirements. Several hundred HRB projects are stalled, leaving completed homes empty and putting strain on developers who are facing rising costs. Lenders are also increasingly unwilling to finance developments requiring BSR approval. Capacity constraints at the BSR and a lack of qualified inspectors are contributing to these delays. As a result, Build-to-Rent applications fell 41% in Q4 2024. While action is being taken to address the delays, including a further £2m being allocated to the BSR by government, we expect these issues to continue to put a strain on HRB development throughout the remainder of 2025.

Severe delays to UK housing delivery caused by the Building Safety Regulator

RESIDENTIAL AND BUILD-TO-RENT | Outlook for the next six months

Looking ahead, we expect market activity to return to pre-pandemic levels, supported by stable house prices, lower mortgage rates, and improving economic conditions. With more choices available, buyers are expected to remain price-sensitive, limiting the scope for aggressive price growth over the next six months.

Scope for aggressive price growth over the next six months

Challenges around affordability will likely ease over the next six months, driven by continued positive real wage growth and a decline in mortgage rates. Additionally, sustained demand from first time buyers amid higher rentals and increase in activity from movers is set to improve market participation from all buyer groups.

Higher rentals to improve market participation

While the market remains favourable for buyers, particularly movers and first-time buyers, price growth for the coming six months is expected to be moderate, reflecting a balance between economic recovery and sufficient supply of properties for sale.

Price growth expected to be moderate

Following the UK's build-to-rent sector robust growth in 2024, we anticipate further growth throughout 2025, with a strong pipeline of projects set to meet the growing demand, driven by substantial investment, regional market expansion, and increased international interest.

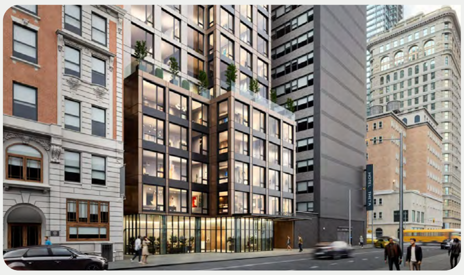
Strong pipeline of projects set to meet the growing demand

Deal spotlight

VERTO

UK's leading sustainable housebuilder

In November 2024, we completed a £4.1m loan to returning customer and the UK's leading sustainable housebuilder, Verto, to support the development of 10 new apartments overlooking the popular Fistral beach in Newquay, Cornwall.



S3

New York-based lending platform

In February 2025, we provided an $18.4m note-on-note facility to New York-based lending platform, S3 Capital, to support a major new residential scheme in Upper East Side, Manhattan.

Offices

OFFICES | The last six months

Despite challenges persisting, including shifting workplace trends and high borrowing costs, the UK office market continued to stabilize after historically low activity, with annual investment totalling £9.5b. Several large deals have taken place over the past six months, particularly in London, including Moody's pre-let at 10 Gresham Street, in addition to significant regional transactions in Leeds, Manchester, and Glasgow.

£9.5b

Investment into the UK office market in 2024

Employee time in office has generally been down post COVID, with recent data showing just under three quarters of workers expect to work an average of three days per week in the office. Despite this, we've seen demand for city centre office space stabilize, as tenants look to purchase larger spaces with more square footage per employee in an attempt to try and woo their teams back to the office.

Demand for city centre office space stabilized

Instead of traditional office setups, the last six months has seen a continued surge in demand for modern, more environmentally friendly buildings with strong BREEAM credentials. This "flight to quality" has been driven by a desire for better amenities, appealing design, flexible layouts, rooftop terraces, and premium end-of-trip facilities, as well as an increased focus on sustainability.

Continued demand for modern, environmentally friendly buildings with strong BREEAM credentials

OFFICES | Outlook for the next six months

Moving forward, there will be a lot of office assets that will be seeking funding for repositioning or conversions to residential under permitted development, depending on how big the floor plates are. If adequate, there's an opportunity to reposition the asset completely, as well as upgrading it and bringing it back to the market as a Category A office.

Strong opportunity to reposition or upgrade assets

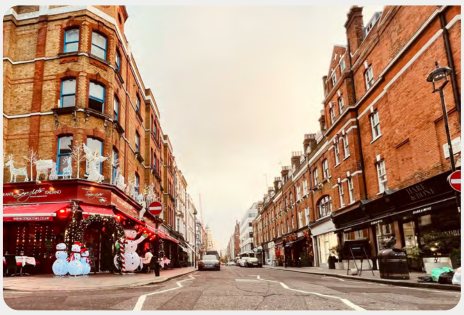
We will continue to see several operators looking for funding to build smaller offices (c.300 sq.ft.) / commercial units in more regional, remote locations. This is because there are tenants who don't necessarily want the cost / time of commuting into a major city but still want somewhere separate from their home to go to work.

Operators will be looking for funding to build smaller commercial units in more regional, remote locations

Deal spotlight

Real estate investor, asset manager and developer

In November 2024, at a time when many other lenders continue to withdraw from funding offices, we provided a £64.5m loan to privately owned real estate investor, asset manager and developer, CEG, for eight major office-led sites located in Nottingham, Birmingham, Manchester, Crewe, Warrington, Glasgow and two in Edinburgh.



FITZROVIA

Residential and Office building

In January 2025, we completed a £1.4m loan to fund the purchase of a 2,690 sq. ft, vacant residential and office building in Fitzrovia, central London. The building is walking distance from several London underground stations and from many of the capital's main tourist attractions.

OAK FUNDING

New Jersey-based real estate lending platform

In March 2025, we provided a $28m note-on-note facility to New Jersey-based real estate lending platform, Oak Funding, to support the acquisition of a Class A commercial office building in Secaucus, New Jersey.

Retail and industrial

RETAIL AND INDUSTRIAL | The last six months

The industrial sector has remained resilient over the last six months, driven by strong tenant demand for logistics and ESG-compliant facilities, boosted further by the government's launch of its industrial strategy aligned heavily with net zero in October 2024.

Government's launch of its industrial strategy aligned heavily with net zero

Retail sales in the UK saw a 1% increase in February 2025, driven by higher spending in department stores, hardware shops, and clothing outlets.

1%
Retail sales increased

Investment volumes for the industrial sector reached £8.2b in 2024, marking the fourth strongest year on record. This sector accounted for 33% of the combined investment across the UK's core commercial sectors, significantly above the long-term average.

£8.2b
Investment volumes for the industrial sector reached in 2024

RETAIL AND INDUSTRIAL | Outlook for the next six months

With the next six months expected to bring a gentler interest rate environment, selective growth opportunities are set to emerge across the industrial and retail markets. As a result, we expect this to gradually support more transaction activity within the second half of 2025.

Growth opportunities are set to emerge across the industrial and retail markets

The retail occupier market is set to show further resilience in 2025, with improving retailer confidence resulting in leading retailers such as Mango and Space NK opening multiple new stores in this period.

MANGO
SPACE NK

Grocery, value retail, and experiential retail, including leisure and dining, are also expected to perform well moving forward, with vacancy rates at large retail parks also likely to continue declining. This positive outlook for retail parks over the next six months is further highlighted by British Land's recent decision to invest £711m into the sector.

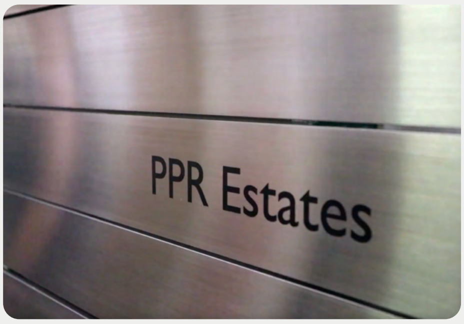
£711m
British land's recent decision to invest into grocery, value and experiential retail, including leisure and dining

Deal spotlight

SGS Group

£445m club loan to SGS Group

In September 2024, we partnered with Lloyds on a £445m club loan to SGS Group, to refinance four major shopping centres across the UK: Lakeside in Essex, Atria in Watford, Victoria Centre in Nottingham, and Braehead in Glasgow.



pprestates

Provided £6.5m facility to PPR Estates

In March 2025, we provided a £6.5m facility to PPR Estates to support two strategic property transactions in Kingston upon Thames and Dorchester.