

OakNorth Sector Pulse

REAL ESTATE

October 2025



OakNorth

Residential and Build-to-Rent (BTR) market

The remainder of 2025 and early 2026 is expected to bring moderate price growth (2–3%), stable transactions, and continued investor interest in rental housing. However, affordability constraints, regulatory bottlenecks, and uneven regional dynamics will require active policy support and operational adaptation – particularly for BTR developers navigating planning delays and cost volatility.

With structural demand for rental housing and an institutional shift toward professionally managed assets, BTR is set to remain a cornerstone of UK residential real estate over the medium term.

RESIDENTIAL AND BUILD-TO-RENT MARKET | The last six months

The UK housing market maintained its recovery through mid-2025, albeit at a slower pace. As of June, annual house price growth moderated to 3.2% from 4.6% in December 2024, reflecting lingering affordability constraints despite falling mortgage rates. Wage growth outpacing inflation and rising mortgage approvals have helped support transactions, with housing market activity tracking at 1.15m annual sales, near pre-pandemic levels. While affordability has slightly improved, it remains tighter than historic norms, especially in London, where house prices remained flat YoY, underlining continued strain in the capital.

The BTR sector continued to show resilience despite a pullback from 2024's record highs. Investment in H1 2025 was below the same period last year but still above the long-term average. Notably, international investors – particularly from North America – accounted for nearly 50% of total capital, underscoring enduring appetite for the sector. Regionally, over 80% of BTR investment occurred outside London, with Manchester, Birmingham, and Leeds leading development. Around 9,700 BTR units were delivered in H1, pushing total stock to 132,000 completed homes, while 51,000 homes are under construction and a further 110,000 have planning approval, suggesting continued growth potential.

After years of rapid growth, rental markets are showing early signs of cooling. New let rents across major indices (HomeLet, Rightmove, Zoopla), increased by just 2–3% YoY, while broader rental inflation (including renewals) remains elevated at 6–7%, driven by legacy tenancies resetting at higher rates. Rental affordability remains stretched, especially in London and the South East. Completions are forecast at ~230,000 homes for 2025, up slightly from 2024 but still far below the government's 300,000 annual target. Planning approvals have improved modestly, but developer sentiment remains cautious due to lingering cost and regulatory pressures. As per BCIS, Construction costs rose by 4.8% YoY, down from 6.2% in 2024, but rising labour costs and financing challenges continue to constrain the sector.

RESIDENTIAL AND BUILD-TO-RENT MARKET | The next six months

Looking ahead to the next six months, the UK residential and BTR markets are likely to enter a phase of muted, measured growth. Mortgage rates should gradually ease if BoE rate cuts materialise – Capital Economics now expects the base rate to drop from ~4.25% to 3.00% over the period, which could feed into more competitive mortgage products. That said, the recovery trajectory will be constrained by affordability pressures and supply-side bottlenecks.

▲
3.2%

UK house prices rose in June 2025, slowing amid affordability strains; London prices stayed flat.



BTR stayed strong with major North American investment; 132k homes completed.



Rental growth cooled to 2–3% YoY as affordability stayed tight and costs rose, keeping completions below targets.



UK housing and BTR to see modest growth amid easing rates and tight supply.

On the residential sales side, modest price growth of 1–3% over the six month period is plausible, reflecting a balance between pent-up demand and cautious buyer sentiment. In its revision, [Savills](#) notes that house price growth has already slowed, with the year to June seeing just ~2.1 % growth, down from 4.7 % in December 2024. [Knight Frank](#) also signals that while interest rates and market sentiment support stability, high supply will cap upside. As mortgage borrowing costs decline and household incomes adjust, more first time buyers and younger “movers” may re enter the market. However, many will remain highly price-sensitive, limiting scope for aggressive upward moves.



Residential prices may rise 1–3%, with stable demand but cautious, price-sensitive buyers.

The BTR and the private rental sector should continue to benefit from structural tailwinds. With persistent supply constraints in homeownership and rising capital flows into institutional residential, BTR projects with institutional backing are expected to remain attractive. According to [CBRE's 2025 outlook](#), lower debt costs and continued investor appetite will support further investment into the “Living” real estate segments, including BTR. However, rental growth is likely to moderate - shifting closer to long run averages rather than repeating the double digit jumps of recent years.



BTR stays strong with investor demand, but rent growth will ease.

Risks over the period will stem from ongoing regulatory and planning delays. Gatekeeping through the Building Safety Regulator and approval process bottlenecks remain a drag, particularly for high-rise builds. If investor confidence stalls or credit conditions tighten further, some development projects may be delayed.



Regulation and credit risks may slow projects.

Offices

Looking ahead, continued macroeconomic stabilisation and further Bank of England base rate cuts could unlock more liquidity for office investment. However, high vacancy in secondary stock, limited supply of Grade A completions, and tight ESG regulations will shape the pace and direction of the market. Quality remains king - and landlords unable to upgrade legacy stock may face increasing obsolescence risk.

OFFICES | The last six months

The UK office market continued to show signs of stabilisation through the middle of 2025, following several years of subdued activity. According to [Colliers](#), office investment volumes reached £5.2bn in H1 2025, marking a 24% increase YoY and 4% rise from H2 2024 (traditionally strong half), signalling a potential bottoming out of the market. While still 25% below the five-year average, activity in H1 2025 notably improved, particularly in London, mainly driven by overseas capital (accounted for 76% of 2025 purchases to date in London).

24%

UK office investment rose 24% YoY in H1 2025, led by overseas buyers, hinting at market recovery.

This growing activity was not limited to the capital. Regional hubs such as Manchester, Leeds, and Glasgow also saw rising investor interest, buoyed by yield adjustments and tenant demand for prime, centrally located stock. For example, in July, OakNorth [supported](#) Melburg Capital Ltd and Winvic Construction with the acquisition of Spectrum, a 130,000 sq. ft office building located on Bond Street in central Bristol. This marks the first transaction under their new strategic partnership, aimed at identifying and repositioning value-add real estate opportunities across the UK, with Winvic overseeing delivery.



Regional demand rose, led by OakNorth's Spectrum deal in Bristol.

Office utilisation hit **five-year highs** in H1 2025, especially in London's prime submarkets. Surveys show a consistent trend: most employees expect to work three days per week in the office, maintaining hybrid work models but solidifying a core demand for physical space. Instead of reducing space, many tenants are now reoccupying previously downsized premises, while others are leasing larger, more open spaces to support collaboration and employee wellbeing. This shift reflects a broader redefinition of the office - not just as a workplace, but as a strategic asset for attracting and retaining talent.



Office use hit five-year highs as hybrid models drove renewed demand for collaborative spaces.

In May, OakNorth **completed** a £5.7m loan to J Hopkins Contractors to acquire its new company HQ, situated in Irlam, Salford. Located just 10 miles outside of Manchester city centre, the new 6.4-acre site is considerably larger than the firm's previous main office, enabling the leading infrastructure provider to accelerate its future revenue growth. The additional space will also help facilitate the expansion of the company's plant and equipment, enhancing operational efficiency and service delivery.



OakNorth lent £5.7m to J Hopkins for a new Salford HQ.

The "flight to quality" remains a dominant trend. Approximately **65%** of H1 2025 office take-up was for Grade A space. Tenants are actively pursuing sustainable, design-led, and high-spec buildings, often prioritising those with BREEAM certification, rooftop terraces, flexible layouts, and high-end end-of-trip facilities. New demand is especially concentrated in buildings with strong environmental credentials, as occupiers aim to meet corporate ESG goals and align with net zero trajectories. The **constrained pipeline of premium space** - particularly in central London - has further amplified demand for top-tier offices, supporting prime rental growth of ~3% YoY.



YoY rise driven by strong demand for Grade A, ESG-focused offices (65% of take-up).

OFFICES | The next six months

Over the next six months, we expect a growing number of office assets - particularly ageing, secondary stock - to seek funding for repositioning, retrofitting, or full conversion. Rising environmental standards, coupled with tenant demand for ESG-compliant space, are making non-compliant buildings increasingly obsolete. Many landlords may look to reposition these buildings into Category A or best-in-class Grade A offices, especially where location and floorplate design support efficient redevelopment.



More ageing offices will seek funding for ESG-led retrofits or conversions to Grade A space.

At the same time, conversion to residential under permitted development rights is likely to gain pace, particularly for underperforming office assets with adequate layouts and infrastructure. This trend will be especially relevant in areas facing housing shortages or where large office vacancies persist. As noted by **Knight Frank analysis**, asset obsolescence is accelerating, and nearly 70% of UK office space is now considered below Grade A, representing a sizable pipeline for repositioning over the medium term.



Office-to-resi conversions to rise amid ageing stock, housing demand.

The next six months will also likely see continued interest in smaller office schemes (c.300-1,000 sq.ft.) - particularly in regional towns, commuter belt locations, and suburban areas. These formats cater to hybrid workers who value having a local workspace but are unwilling to commute daily into city centres. Operators and developers are increasingly focused on flexible-use spaces in high street or mixed-use formats, often with shorter leases, shared amenities, and tech-enabled setups.



Small, flexible offices in suburbs gain demand from hybrid workers.

Overall, the outlook is cautiously optimistic: while macro pressures and regulatory burdens persist, well-located, well-specified office assets - especially those in the process of being repositioned - will remain in demand. Flexible formats and ESG-led upgrades will be the differentiators in a bifurcating market.



Quality, ESG-focused offices remain in demand.

Retail and Industrial

Both the industrial and retail sectors demonstrated notable resilience over the last six months, albeit in different ways. Industrial markets are adapting to rising vacancy and a rebalancing of supply, while retail is experiencing a selective rebound focused on prime and edge-of-town assets. ESG considerations and policy alignment - particularly around defence and sustainability - remain central to both sectors' investment theses. Looking ahead, we expect steady demand and continued bifurcation between high-quality, well-located assets and those at risk of obsolescence.

RETAIL AND INDUSTRIAL | The last six months

The UK industrial sector remained fundamentally resilient through mid-2025, despite some signs of softening. Tenant demand - particularly for logistics, specialist manufacturing, and ESG-compliant facilities - continued to underpin leasing activity. Industrial take-up in Q2 2025 was strong, driven by 3PL demand, big-box lettings, and a rebound in second-hand Grade A space. However, vacancy rates rose to over 7%, the highest level in a decade, as speculative completions outpaced demand in some regions. Still, most of this stock remains high quality and ready-to-occupy, keeping landlord sentiment relatively upbeat. Rental growth moderated but remains above pre-pandemic levels.

7%

Vacancy marked a decade high, but industrial demand and resilience stayed strong.

The sector is benefiting from policy tailwinds including the government's Strategic Defence Review (SDR), which is unlocking demand for specialist logistics and defence-related manufacturing in key regions such as Barrow, the Midlands, and Scotland. These long-term commitments are expected to support a steady base of occupier demand through 2026.



Defence policies boost regional industrial demand.

Investor appetite has remained cautious but selective. While investment volumes in H1 2025 trailed 2024's record £8.2bn, institutional interest in prime logistics and reversionary multi-let estates remains strong. Yields have largely stabilised on top-tier assets, supported by strong occupier sentiment and constrained supply in high-demand submarkets.



Steady demand for prime logistics.

The retail sector continued its gradual recovery, with leasing activity reaching multi-year highs across high streets and retail parks. Prime retail locations in London and Glasgow set new rent benchmarks during this period, while edge-of-town schemes saw reduced vacancy and some rental uplift. Retail parks remain the standout performers, supported by low rents, stable demand from discounters, and high occupancy. Notably, operators like M&S, B&M, and TK Maxx have continued to expand in these formats, and in September, OakNorth provided a £12m bespoke funding package to British heritage brand, Whittard of Chelsea, to support its continued growth and expansion. Meanwhile, shopping centres remain mixed, with prime schemes showing renewed investor interest and secondary assets still under pressure.

£12m

OakNorth funding for well-known retail brand, Whittard of Chelsea

Investment volumes remained largely flat YoY in H1 2025, totalling £4bn, while slightly above five-year average, signalling stabilisation after a period of caution. This was led by supermarkets, retail parks, and West End stores. Cross-border investors accounted for nearly 60% of value, reflecting growing international confidence in select UK retail formats.

£4bn

Retail investment steady, led by parks and supermarkets.

RETAIL AND INDUSTRIAL | The next six months

Over the next six months, we expect investor and occupier focus to remain highly selective: prime logistics, ESG compliant warehouses, last-mile hubs, and reversionary portfolios will command the most attention, while older, functionally obsolete stock may struggle to attract capital. Leasing demand should hold up reasonably well, supported by ongoing e-commerce tailwinds, supply chain reconfiguration (nearshoring and de-risking), and continued demand for modern cold storage and data centre adjacent facilities. That said, absorption may slow slightly in less advantaged submarkets. Vacancy in some secondary zones could rise modestly if speculative completions accelerate, placing pressure on rents in non-prime zones.



Focus stays on prime, ESG logistics as weaker stock faces rising vacancies.

Capital deployment is likely to lean toward value-add strategies - refurbishment, ESG upgrades, and "right-sizing" of layouts. Given the limited availability of new green field land in key logistics corridors, repositioning existing assets will be a key play. Developers and investors able to deliver flexible, sustainable space will retain pricing power.



Value-add ESG upgrades to lead investment.

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Cautious but steady demand for prime logistics assets.

The retail sector is expected to maintain relatively resilient, though growth will be selective. Consumer sentiment and disposable income trends will be key drivers; many retailers will remain cautious in Q4 2025 and early 2026, with improved clarity on macro and interest rate cycles needed to unlock more aggressive expansion. Retail parks look set to outperform: [CBRE's UK Retail Parks 2025](#) report highlights their continued strength, with footfall outpacing high streets, robust occupier demand (especially essential, discount, homeware, F&B, gym/leisure) and vacancy rates dropping to around 6%. Retail parks are also [benefiting](#) from the integration of omnichannel retailing (Click & Collect, returns) and experiential layering, making them well-suited to hybrid consumer patterns.



Retail parks to outperform as resilient demand and hybrid shopping boost activity.

In high streets and shopping centres, prime locations will remain scarce. [CBRE notes](#) tightening supply in top-tier streets, competitive bidding among best-in-class tenants, and continued yield compression in core retail assets. But secondary malls and weak high-street nodes will still face headwinds from online substitution, cost pressures, and tenant fragility.



Prime retail stays tight as secondary sites face ongoing pressure.

We may see selective store expansion from value, discount, and experiential brands, while weaker or unprofitable formats retrench. Retailers with strong omnichannel models, efficient cost structures, and differentiated experiences will be better positioned to navigate the period. The structural shift toward more resilient retail formats - parks, convenience, omni-capable stores - should continue to reshape investment strategies.



Value and experiential brands drive resilient retail growth.