

OakNorth Sector Pulse

UK REAL ESTATE

April 2026



OakNorth



Industry overview

The UK real estate market has entered 2026 in a more stable but increasingly selective phase. Demand is holding up, but affordability, costs and macro uncertainty continue to constrain momentum, reinforcing the widening gap between prime and secondary assets. In this context, lending should remain disciplined and focused on prime, liquid assets and experienced sponsors, with a clear bias towards backing execution through development or repositioning rather than relying on passive market recovery.

At the same time, macro volatility—particularly around interest rates, inflation and energy prices—presents a risk to affordability and exit conditions, while secondary assets continue to face obsolescence, higher capex requirements and weaker liquidity. Against this backdrop, the strongest opportunities lie in sectors supported by structural demand, including housing, BTR, logistics and high-quality offices, as well as in value-add strategies underpinned by credible business plans.

Sector Spotlight



Bonded whisky warehouses

In February 2026, we provided a £7.5m loan to support the next phase of growth at Royal Elizabeth Yard at Queensferry, including the conversion of several existing sheds into bonded whisky maturation warehouses, enabling the business to meet growing demand for high-quality independent storage capacity.



UK and Ireland's market leaders

In November 2025, we provided a £7.5m loan to [McAvoy](#), one of the UK and Ireland's market leaders in the manufacturing and rental of premium modular buildings. The facility supported the business' ongoing working capital requirements following its acquisition by European mid-market private equity firm, [Duke Street](#), from Blantyre Capital last month.



Logistics and a wellness centre in Burgess Hill

In October 2025, we provided a £3.7m loan to returning customer, Gatehouse Hub Ltd to fund the development of a further 20 industrial logistics units and a wellness centre, on the outskirts of Burgess Hill in West Sussex. This follows the £6m facility OakNorth provided in August 2024 to fund phase one of the scheme, comprising of 19 industrial logistics units spread over 43,487 sq. ft.



URY ESTATE

Residential and leisure development in Aberdeenshire

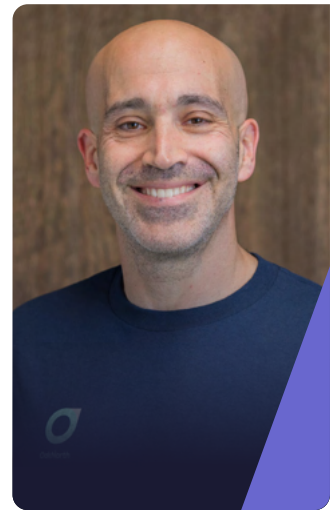
Also in October 2025, we provided a £17m loan to support the next phase of development at Ury Estate in Aberdeenshire, including 18 luxury homes at Jack Nicklaus Village and a further 71 much-needed family homes at Glen Ury View, marking a major step in the transformation of the historic estate into a world-class residential and leisure destination.



While the environment remains complex, underlying fundamentals continue to present opportunities across residential, industrial and specialist real estate. This supports a flexible, sponsor-led lending approach, with a continued emphasis on backing experienced operators with clear business plans and strong visibility of cashflows. However, execution risk remains a key consideration, particularly in light of ongoing cost pressures, planning constraints and evolving regulation.

As a result, there is a clear rationale to deepen relationships with repeat borrowers and provide follow-on capital, while also expanding into specialist segments such as modular construction, logistics infrastructure and alternative living, where demand is growing and traditional capital may be more constrained.”

Ben Barbanel
Chief Lending Officer at OakNorth



Residential and Build-to-Rent (BTR)

Market overview

Demand remains underpinned by structural undersupply, but affordability continues to cap price growth and transaction activity. Rental growth is slowing, while BTR investment remains strong despite constrained delivery. This environment supports a cautious but constructive lending approach, with conservative assumptions on pricing and absorption, alongside a clear opportunity to finance the gap between investor demand and limited scheme delivery in BTR. Key risks remain centred on affordability constraints—particularly in London and the Southeast—as well as increasing policy and regulatory complexity and ongoing viability pressures linked to construction costs. As a result, the most compelling opportunities are in regional cities such as Manchester, Birmingham and Leeds, where development economics are more favourable, as well as in supporting SME housebuilders and selectively backing BTR schemes with strong sponsors and clear paths to stabilised income.

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

The second half of 2025 confirmed that the housing market is still recovering, but at a slower pace. Official data shows UK [house price growth](#) remained modest over 2025, while London recorded a decline. This points to a clear north-south divide, with more affordable northern markets outperforming and higher-cost southern markets showing weaker momentum. Lower mortgage rates and improving real incomes are helping activity, but not enough to drive a strong rebound. Buyer demand is therefore stabilising rather than accelerating, with affordability constraints continuing to cap upside, especially in higher-value markets.



H2 2025 housing recovery was slow, with modest growth and weaker London performance.

Rental markets are also cooling, though they remain structurally undersupplied. UK private rents were still rising in early 2026, but at a much slower rate than in the previous two years, with London recording the weakest rental inflation in England. This reflects a market where underlying demand continues to exceed supply, but effective demand is increasingly constrained at the margin by affordability. In other words, while the structural imbalance is still pushing rents upward, affordability ceilings are beginning to dampen further rental growth, particularly in the most expensive locations.



Early 2026 rents are rising more slowly, with London weakest due to affordability constraints.

The BTR sector has remained resilient, even as delivery conditions have become more difficult. Investment rebounded through 2025 and finished the year ahead of 2024, helped by a strong final quarter and continued capital flows into rental housing. However, starts slowed sharply, especially in London, which shows that investor appetite is holding up better than the construction pipeline. In other words, the capital wants exposure to living sectors, but delivery is increasingly constrained by viability and execution risk.



BTR was resilient in 2025, with strong investment but fewer new starts.

That divergence between demand and delivery is becoming more important. The planning pipeline has improved, but the number of schemes starting on site has fallen materially, implying that planning progress is not yet translating smoothly into construction. This keeps the medium-term supply outlook supportive for rents and occupancy, but it also limits how quickly professionally managed rental stock can scale.



Planning progress isn't yet converting to construction, keeping rental supply constrained.

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

Residential pricing to remain cautious amid conflict-driven macro risks. Lower borrowing costs may still offer some marginal support to demand, but the current Iran conflict has increased downside risks through higher energy and commodity prices, a weaker confidence backdrop and the potential for slower improvement in mortgage conditions. With affordability already stretched, the sales market is likely to remain cautious and price-sensitive, leaving house price growth broadly flat or only marginally positive in the near term.



Iran conflict adds downside risk, keeping residential prices flat near term.

Affordability remains the main constraint on residential values. The key challenge for the for-sale market is still affordability rather than lack of underlying demand. Higher house prices relative to income, tighter borrowing constraints and limited deposit capacity continue to restrict how far values can move, particularly in London and the Southeast. This should keep pricing broadly stable but limit the scope for any stronger recovery in the near term.



Affordability is limiting residential price growth, especially in London and the Southeast.

BTR should continue to attract capital, though delivery and policy risk are becoming more important. The investment case for BTR remains supported by stretched homeownership affordability and deep rental demand, which should continue to attract institutional capital. However, slower starts and ongoing viability pressures mean converting investor interest into completed homes will remain challenging, particularly in higher-cost urban markets. The policy backdrop has also become more complex, with Budget 2025 introducing higher tax rates on property income from April 2027 and the Renters' Rights Act set to take effect from 1 May 2026, bringing a more regulated operating environment for landlords. These changes do not undermine the sector's structural appeal, but they do raise the importance of underwriting discipline, operating scale and execution.



BTR capital appetite stays strong, but policy and delivery risks are rising.

Regional divergence will remain important, with London constrained and selected regional cities still better placed. The rental market and BTR pipeline are not moving uniformly. London continues to face the sharpest affordability strain and has seen a particularly severe drop in new BTR starts, while several regional cities remain comparatively more attractive from a delivery and value perspective. [Manchester, Birmingham and Leeds are still among the stronger regional markets](#), supported by scale, rental demand and relatively better development economics, while the sector's footprint is also broadening beyond the core cities into additional regional locations. This should keep capital focused on cities where demand is strong and delivery remains more achievable, especially outside the capital.



London BTR lags as regional cities like Manchester and Leeds stay attractive.

Offices

Market overview

The office market is stabilising, but recovery is concentrated in prime, ESG-compliant assets, with tightening supply of high-quality space beginning to support rental tension. This reinforces the need for a highly selective lending strategy focused on assets with strong leasing prospects and long-term relevance, while also creating opportunities to finance the repositioning of secondary stock into ESG-compliant, Grade A space. However, risks remain elevated for older assets, which face increasing regulatory pressure—particularly around EPC requirements—as well as higher capital expenditure needs and weaker demand. In addition, macro uncertainty may continue to delay leasing and investment decisions. Within this context, the strongest opportunities are in supply-constrained prime markets such as London, Manchester and Leeds, alongside well-capitalised repositioning strategies led by experienced sponsors.

OFFICES | The last six months

The second half of 2025 confirmed that the office market is moving into a more stable phase after several subdued years. In Central London, full-year leasing was broadly [in line](#) with both 2024 and the long-run average, while the year ended with a meaningful tightening in availability and an improvement in vacancy. Investment activity also recovered over the course of the year, with full-year Central London volumes rising strongly on 2024 and overseas capital once again leading the market.



H2 2025 office market stabilised with steady leasing and stronger investment.

The regional markets also showed resilience. Across the UK markets, 2025 take-up was only [modestly below](#) the previous year and still slightly above the five-year average, suggesting that occupier demand held up better than broader sentiment implied. Availability reduced through year-end, and demand remained concentrated in new or early marketed space, reflecting continued occupier preference for better-quality buildings. In the South East, annual take-up reached its [highest level since 2021](#), supported by significant pre-let activity.



South East take-up hit its highest since 2021, with regional demand holding firm.

Conditions were constructive across several major [regional office centres](#). Birmingham recorded healthy activity through the second half of the year, while Leeds and Manchester both saw tightening Grade A availability as steady demand met limited new supply. This matters because it signals that the strongest part of the market is no longer simply recovering; in some cities it is beginning to look constrained. That tightening should continue to support prime rental growth, particularly in assets with strong sustainability credentials and modern specification.



Leeds and Manchester Grade A space is tightening, pushing prime rents higher.

OFFICES | The next six months

The near-term outlook is more cautious amid war in the Middle East. The [market has moved off its lows](#), and 2025 confirmed that demand for the right product remains intact across London and the regions. However, the macro backdrop has become less supportive, with weaker UK growth and renewed Middle East energy volatility increasing inflation risk. For offices, this could slow rate cuts, keep debt pricing volatile and delay some occupier and investor decisions. As a result, well-located, high-quality and ESG-aligned assets should continue to outperform, while weaker stock faces rising pressure to reposition.



Middle East conflict and macro headwinds are clouding the near-term office outlook.

Prime supply is tightening and this is now feeding directly into rental tension. The strongest theme remains the shortage of high-quality, energy-efficient office space. In Central London, [availability fell materially](#) into year-end, while regional markets such as Leeds and Manchester also reported tighter Grade A conditions. This scarcity is likely to continue supporting rental growth through 2026, particularly in ESG-compliant prime stock. The implication is that better-quality buildings should continue to outperform even if wider market sentiment softens.



Tight prime office supply is driving rental growth, especially for ESG-compliant buildings.

Occupier demand remains focused on quality rather than quantity. The office recovery is not broad-based across all stock. Demand continues to concentrate in buildings [that can offer sustainability, amenity, flexibility and a stronger workplace experience](#). Occupiers are prioritising better buildings that support talent retention and align with corporate ESG objectives. This pattern is likely to continue as occupiers respond to tighter environmental standards and favour best-in-class space over cheaper but obsolete alternatives.



Office demand remains focused on high-quality, ESG-aligned buildings.

Regulation continues to add to capex pressure. The tightening in prime markets is increasing pressure on older stock that cannot meet occupier expectations or future regulatory standards. Buildings with weaker EPC performance, dated layouts or limited amenity are likely to face longer voids, higher capex requirements and weaker liquidity. The government's [March 2026 response](#) on EPC reform also keeps the prospect of tighter standards firmly in view. At the same time, any delay to rate cuts, combined with higher construction and fit-out costs, could slow refurbishment and retrofitting activity, making some schemes harder to justify. This should keep value creation focused on active asset management and selective capex rather than passive market recovery.



Regulation and costs are increasing capex pressure, especially on older office stock.

Industrial and Retail

Market overview

Both sectors are stabilising, but performance is increasingly polarised, with industrial demand supported by supply chain reconfiguration and retail benefitting from improved fundamentals in prime formats. This supports a selective lending approach aligned with structural demand drivers, particularly in logistics and well-performing retail segments. However, risks remain, including elevated supply and vacancy in industrial, ongoing structural challenges in secondary retail and rising occupier costs across both sectors, which may impact rental affordability and expansion decisions. As a result, lending should focus on modern, well-located industrial assets and prime retail formats such as retail parks, grocery-led schemes and dominant shopping centres, while also supporting value-add strategies where assets can be repositioned to better align with evolving occupier needs.

RETAIL AND INDUSTRIAL | The last six months

The second half of 2025 confirmed that both the industrial and retail sectors are moving into a more stable phase, although the recovery remains uneven and increasingly selective.

In the industrial market, occupier demand improved through the year, with take-up strengthening and net absorption turning positive by year-end. Activity became more broad-based, supported by manufacturing, retail and third-party logistics operators, as highlighted in [Savills' UK Industrial Market Update](#). However, rising vacancy and elevated supply mean the sector is still rebalancing rather than fully recovered. Modern, well-located space has remained the most resilient, while older stock continues to face weaker demand. Investment activity also improved, with pricing stabilising for prime assets and liquidity returning at the larger-lot end, although capital remains highly selective.



Industrial stabilised in H2 2025, with stronger demand but selective recovery.

Retail conditions also strengthened over the same period, with consumer spending holding up better than expected, according to the ONS retail sales data, and supporting leasing activity across the strongest formats. Vacancy declined across core retail channels, with [particularly tight conditions in retail parks](#), and improving performance in dominant shopping centres and prime high streets. [Prime rental growth resumed in key locations](#), including Central London, reflecting strong demand for the best space. Investment conditions became more constructive, with increased institutional participation and signs of yield compression in prime assets, although the recovery remains concentrated in higher-quality schemes.



Retail recovery is gaining momentum, but remains concentrated in prime, high-quality assets.

Across both sectors, a common theme has emerged: performance is increasingly driven by asset quality, location and relevance to occupier needs, rather than broad market momentum.

RETAIL AND INDUSTRIAL | The next six months

Looking ahead, both sectors are expected to see continued but selective progress, with macroeconomic uncertainty and cost pressures shaping the pace of recovery.

In industrial, the outlook is for [gradual improvement rather than a rapid rebound](#). Demand is being driven by supply-chain resilience, nearshoring, automation and more strategic logistics planning, with occupiers increasingly focused on efficiency, connectivity and operational control. While vacancy is expected to stabilise and rental growth remain positive, elevated supply and higher occupier costs – particularly energy, labour and transport – may temper decision-making. At the same time, structural drivers such as defence spending – following the UK Strategic Defence Review – and supply-chain reconfiguration are expected to create pockets of stronger regional demand, particularly in established industrial and logistics hubs.



Industrial recovery will be gradual, as structural tailwinds meet rising costs and supply.

In retail, fundamentals are improving but the outlook remains cautious and highly dependent on consumer confidence. Spending is [expected to remain active but selective](#), with households continuing to prioritise value, convenience and essential categories. Prime high streets, dominant shopping centres and retail parks [should continue to perform well](#), supported by tighter supply and resilient occupier demand. In contrast, secondary locations are likely to remain under pressure from weaker footfall, higher costs and ongoing structural challenges. Retail parks, grocery and value-led formats are expected to remain among the strongest performers, benefiting from affordability, accessibility and alignment with omnichannel retail strategies.



Retail outlook is cautious, with prime formats outperforming while secondary locations remain under pressure.

Across both sectors, cost pressures are becoming a more prominent constraint. Rising wages, business rates, fit-out costs and energy prices are adding [complexity for both occupiers and developers](#), potentially slowing expansion and investment decisions. As a result, capital is expected to remain focused on prime assets and value-add opportunities where active management, repositioning or operational improvements can drive performance.



Cost pressures are rising, keeping industrial and retail recovery selective and focused on prime assets.

Overall, the industrial and retail markets are continuing to stabilise, but the next phase of recovery will be defined by selectivity, operational discipline and the ability to adapt to a more uncertain and cost-sensitive environment.



Both sectors are stabilising, but selectivity and operational discipline will define what outperforms.