OakNorth Sector Pulse

UK REAL ESTATE

November 2026



OakNorth

Industry overview

The UK real estate market has moved through the last six months against a less supportive financing backdrop. The Bank of England held the Bank Rate at 3.75% in September, but by a 6–3 vote, with three members preferring a rise to 4%, saying the Middle East conflict had become more protracted. Meanwhile, the 10-year gilt yield reached around 5.5% in early October - its highest since 2007 - ahead of Chancellor John Healey's first Budget on 28 October.

Performance in the sector has diverged accordingly - where supply is constrained and demand is quality-led, occupational fundamentals have strengthened. Central London availability fell back to its ten-year average for the first time since 2022, and Build-to-Rent (BTR) investment hit a record £2.2bn in Q2. Logistics vacancy fell in Q3, and retail vacancy declined across high streets, shopping centres and retail parks. Annual house price growth slowed to 1.4%, and mortgage approvals fell to their lowest since December 2023. With gilt yields at multi-year highs, valuations are now a bigger pressure point than occupier demand. Lending should therefore stay selective, focused on supply-constrained assets and experienced sponsors with clear business plans that don't rely on falling rates.

Sector Spotlight



Sustainable offices in the UK and Europe

In April, we provided a £50m revolving credit facility to LSE-listed CLS Holdings, an owner of office and commercial property across the UK, Germany and France with a portfolio of around £1.7bn and over 650 occupiers. The facility refinances existing debt and supports refurbishment, leasing activity, and the repositioning of assets to meet occupier demand for sustainable, high-quality space.



EUROPEAN INVESTOR

Landmark assets in Farnham and Edinburgh

In June, we provided a bespoke facility to a European investor advised by Jamestown. It supports the acquisition of Lion & Lamb Yard in Farnham, a mixed-use destination of 26 retail and food and beverage units, and 20 apartments, anchored by Waitrose. It also refinances Lochrin Square, a Grade A multi-let office-led asset of over 100,000 sq. ft. in Edinburgh's Exchange District.



Self-storage development in Bedford and Leeds

In June, we provided an £11.7m loan to returning customer, Cinch Self Storage, to fund two new facilities in Bedford and Leeds. They will add over 120,000 sq. ft. of lettable self-storage space to its portfolio.



West Coast >35 Estates

EV charging and retail in Scotland

In September, we provided a loan to West Coast Estates to acquire two commercial assets. Craigtoun Road in St Andrews is a 7-acre site consented for over 60,000 sq. ft. of retail, office and employment space, with Home Bargains as the anchor retailer. Grampian House in Aberdeen is a former warehouse with consent for conversion into the UK's first indoor drive-thru ultra-rapid EV charging hub, pre-let to Fastned on a 35-year lease.

The UK property market is increasingly defined by selectivity. Occupier demand for prime offices, logistics, and well-located retail is holding up, and supply is tight. At the same time, 10-year gilt yields at their highest since 2007 and a Budget still to come, mean financing costs are unlikely to provide relief any time soon. That reinforces our focus on supply-constrained assets, experienced sponsors, and business plans that stand up without falling rates. We continue to see strong opportunities in repositioning, in specialist segments such as self-storage and roadside infrastructure, and in providing follow-on capital to repeat borrowers. Execution risk and exit pricing remain the key considerations."

Ben Barbanel
Chief Lending Officer at OakNorth



Residential and build-to-rent

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

House prices have stalled, with a widening north-south split

ONS reported annual UK house price growth of 0.9% in the year to August, down from a revised 1.2% in July, signalling a continued slowdown in the market. London prices fell 2.2% year on year, driven by a 5.0% decline in flat prices, while the South East also recorded negative annual growth. Northern Ireland continued to outperform, with prices rising 9.2% in Q2 2026, while the North East recorded the strongest growth among English regions at 3.2%, down from 4.7% in July.

House prices grow 0.9% as regional gaps widen

Credit has become the binding constraint on activity

Rightmove's average two-year fix mortgage has risen from 4.25% in February to 5.29% in September, and approvals for house purchases fell to 54,900 in August - the lowest since December 2023.

Two-year mortgage rates rise as approvals hit lows

Rents have re-accelerated, and BTR investment hit a record while new delivery slowed

Private rents were up 3.8% to £1,400 in the year to August - the fastest growth since December 2025 - with London rising from 3.0% to 3.5%. Q2 BTR investment of £2.2bn was the strongest second quarter on record, but this was largely driven by Morgan Stanley's £1bn+ purchase of Metra Living, and Greystar's £500m acquisition of Elephant Park, with North American investors providing 60% of H1 capital.

Private rents accelerate as BTR investment reaches records

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

Prices are likely to stay flat to slightly lower, with mortgage pricing the swing factor

Rightmove has cut its 2026 asking-price forecast from +2% to between 0% and –2%. Markets were pricing a quarter-point rise by the end of the year as of early September, and the next MPC decision is on 5 November. A rise would delay any recovery in transactions and widen the gap between southern collateral, which is losing equity headroom, and northern collateral, which continues to build it.



House price outlook weakens as interest rates stay higher

The Budget and the new first-time buyer scheme are the key policy events

The Prime Minister has ruled out changes to stamp duty at the 28 October Budget, though speculation continues around other property and wealth taxes. The 'Your First Home' scheme offers a 20% equity loan on new-build homes with a 2.5% deposit, with details due at the Budget and pre-registration by the end of 2026. Its design will determine whether it adds volume or mainly supports new-build prices.



Stamp duty unchanged as new home scheme awaits

The BTR supply gap is set to widen

The fall in starts means completions are likely to be thin later in the decade, which should keep occupancy tight for existing schemes while limiting how quickly the sector scales. With 10-year gilts at around 5.5%, exit-yield assumptions and viability on new schemes are under pressure. We expect development finance demand to stay weak, and see the best opportunities in regional schemes with strong sponsors and clear paths to stabilised income.



Lower starts constrain future supply and sector growth

Offices

OFFICES | The last six months

AI has become a material source of Central London demand

CBRE recorded Q2 take-up of 2.7m sq ft - up 19% on Q1 but still 14% below Q2 2025. Technology, media and telecoms accounted for 27% and banking and finance 26%. AI-related occupiers took over 450,000 sq ft in Q2 and over 700,000 sq ft in H1. The largest deal of the quarter was Anthropic's 158,000 sq ft at 1 Triton Square, and OpenAI pre-let 95,500 sq ft at Regent Quarter.



AI demand drives stronger office leasing activity in Q2

Supply is tightening in the core while the rest of the market lags

Central London availability fell 6% to 19m sq ft - back at its ten-year average for the first time since 2022 - and vacancy fell to 6.5%. New and pre-let space made up just 36% of take-up, the lowest since 2020, and space under offer is 17% above its ten-year average. Mayfair and St James's pipelines are 50% and 76% pre-let or under offer, with prime rents up 19% year on year.



Prime rents rise as London office availability tightens

Investment recovered in Q2, helped by owner-occupiers

Central London volumes were £1.7bn - up 21% on Q1 but 13% below Q2 2025 - with Barclays' £750m purchase of One Churchill Place accounting for 45% of the total. Outside London, take-up across the regional cities had its strongest first half since 2019, and the new government's plan to give regional mayors a share of income tax revenue could strengthen regional demand in the near future.

Central London volumes rise as regional demand strengthens

OFFICES | The next six months

Prime rental growth should continue, backed by a strong pipeline of requirements

Active demand across the City and Central London stood at 13.8m sq ft at the end of Q2 - 72% above the long-term average. Just 33% of the 13.2m sq ft under construction is let or under offer, so we expect pre-letting to keep accelerating and large Grade A floorplates to remain scarce, with AI occupiers continuing to drive demand.



London office demand surges as Grade A space tightens

Secondary stock faces a choice between capex and conversion

The government has confirmed its intention (but implementation remains subject to further policy steps) that let non-domestic buildings over 1,000 sq m mustreach EPC B by 2031, where cost-effective. The proposed 2027 interim EPC C milestone has been dropped, which removes near-term pressure, but concentrates upgrade and funding demand into the later years of the decade. Value in secondary stock will therefore increasingly depend on repositioning or change of use.



EPC upgrades shift towards 2031

Yields are likely to stay higher for longer

With 10-year gilts around 5.5% and three MPC members already voting for a rise, there is little scope for office yields to compress. We expect firm prime rental growth to limit valuation falls for the best assets, while secondary and peripheral stock bears the brunt of higher yields.



Higher yields pressure secondary office values

Industrial

INDUSTRIAL | The last six months

Take-up softened in H1, concentrated in the Midlands, before improving in Q3

CBRE reported H1 take-up of 10.9m sq ft - down 16% on H1 2025 - with 3PLs taking 55% of Q2 activity. The vacancy rate rose 37bps to 7.1%, and the East Midlands took 50.9% of Q2 take-up. CBRE's Q3 big box data shows vacancy falling back to 6.5% from 7.1%, with net absorption at its highest since mid-2025. The Midlands accounts for 71% of year-to-date take-up, and speculative space under construction has risen to 11.6m sq ft.



Midlands drive industrial demand as vacancy declines

Defence is now a measurable source of demand

Defence-related occupier activity reached 1.3m sq ft in H1 2026, following a record year in 2025, when defence manufacturers and their supply chains took 3.8m sq ft, 8.5% of industrial take-up. The government's Defence Investment Plan commits £298bn over four years, and defence spending with UK industry reached a record £34.1bn in 2025/26.



Defence demand stays elevated after record 2025

Corporate activity has signalled long-term confidence

In August, Prologis agreed a recommended acquisition of SEGRO, valuing it at around £14bn. That represents a 39% premium to SEGRO's undisturbed share price.



Prologis agrees £14bn SEGRO acquisition

INDUSTRIAL | The next six months

Vacancy should keep falling as space under offer is absorbed

The Q3 data points to improving fundamentals, though the rise in speculative starts means rental growth will depend on supply discipline. The Midlands is likely to remain the tightest market, with Knight Frank reporting Midlands vacancy of 6.5% and prime rents up 4.2% year on year.



Midlands stays tightest; speculative supply may cap rents

Defence demand should build, but delivery will set the pace

Savills, CoStar, and Real Estate: UK all estimate that at least 14m sq. ft of additional industrial and logistics space is needed by 2030 to deliver the government's defence ambitions. Demand will therefore be concentrated in locations with existing defence heritage, and the industry has warned of delivery challenges. Covenant quality will vary between government-backed long leases and smaller supply-chain firms.



Defence demand needs 14m sq. ft by 2030

Yield pressure is the main risk

Knight Frank puts prime industrial yields at 5.2% to 5.5%. With the 10-year gilt at around 5.5%, that leaves little or no premium over the risk-free rate. Unless gilts ease, we expect buyers to push for higher yields, with rental growth cushioning but not fully offsetting the impact on valuations.



Yields offer little premium over gilts

Retail

RETAIL | The last six months

Consumer spending held up despite the energy shock

ONS reported retail sales volumes up 0.5% in August, with the online share at 28.8%. PwC notes that declining high street footfall helped online retailers most, and volumes were 2.7% higher than a year earlier.



Retail sales rose 0.5%; online benefited most

Occupier conditions improved across all formats

CBRE reported lower vacancy across high streets, retail parks and shopping centres, with prime rents rising. Prime Central London rents were up 7.6% year on year. Investment was weaker: Q2 volumes of £1.28bn were 25% below Q2 2025, although shopping centres took the largest share of activity.



Vacancy fell, rents rose, investment weakened

RETAIL | The next six months

Consumers face a renewed squeeze heading into the Golden Quarter

The MPC expects inflation to rise to around 3.7% in Q4. The government's cut to VAT on energy bills and business rates relief will help at the margin, with detail on business rates reform expected around the Budget.



Inflation squeezes consumers; relief limited

Prime formats should stay tight and recovery will remain prime-led

CBRE expects constrained supply in retail parks and on prime streets, with prime rents rising further and the top shopping centres approaching full occupancy. Secondary locations face reletting and capex risk, and larger let buildings face the EPC B requirement from 2031. We would view retail primarily as an income play on a repriced base, underwritten on rental affordability against tenant trading, rather than on further capital growth.



Prime retail stays tight; secondary faces risk