Report

RICS Property Investment

December 2025

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Introduction

The Property Investment Forum (PIF) convenes 3-4 times a year under strict Chatham House rules. It includes a limited number of senior real estate market and thought leaders alongside representatives from the Bank of England, HM Treasury and other appropriate departments to discuss selected matters / issues that impact the UK real estate markets and wider built environment.

The objective is to distil a series of unattributed thoughts / views on the topic under review that can help RICS Management in their engagement with government and the financial services industry, with other senior industry figures and the wider RICS membership.

The discussions at the December 2025 Property Investment Forum reflected a sector under growing strain, marked by robust but constructive debate. While the UK real estate market has shown resilience in adapting to the rise in interest rates, participants agreed that the coming year represents a critical inflection point. Discussion centred on refinancing risk, shifting capital dynamics, affordability pressures, and the widening pricing gap between prime and secondary assets.

Market conditions and sentiment

Survey evidence presented at the Forum pointed to a subdued baseline outlook. Occupier and investor demand across commercial property remains cautious, with sentiment little changed following the November Budget. Construction expectations are only marginally positive, with output forecast to increase by around only 1–2 per cent in 2026.

In the residential market, there are early signs of improved confidence. Sales expectations over the next twelve months are beginning to edge upwards, supported by the prospect of further interest rate cuts and several years of pent-up demand from households currently constrained to the rental sector. However, rising input costs continue to weigh on viability, particularly for smaller builders facing material price increases of close to 9 per cent.

Refinancing pressures and credit risk

A dominant theme was the approaching wave of refinancing affecting loans originated during the low-interest-rate environment of 2021–2022. As debt resets at significantly higher rates, many borrowers are expected to face pressure on covenant levels, with equity injections or asset disposals increasingly likely.

Participants observed the renewed presence of UK clearing banks, which are re-entering the market with scale and competitive pricing for low-leverage, prime assets. In contrast, several international lenders, notably German banks, have retreated to domestic markets in response to yield pressures at home.

While confidence remains in the resilience of the UK banking system, concerns were raised about fragilities elsewhere, particularly within the US private corporate credit market. Some contributors warned that stress in this segment could pose broader risks to global liquidity conditions.

Sectoral performance and obsolescence

The discussion highlighted growing polarisation between sectors and asset quality. London's prime office market continues to outperform, with constrained supply supporting rental growth reportedly in the range of 10–15 per cent for 2025. This strength stands in sharp contrast to secondary office stock, where the cost of upgrading buildings to meet modern environmental and sustainability standards is increasingly difficult to justify.

For many Grade B and C assets, participants suggested that repurposing or conversion may be the only viable long-term strategy. Within the living sectors, rents have risen sharply, but there are clear signs of an affordability ceiling emerging. In several major cities, housing costs are becoming prohibitive for key worker groups, raising concerns about longer-term demand and occupancy risks.

Macroeconomic outlook and inflation

There was no consensus on the future path of inflation, with sharply differing views expressed. Some participants pointed to market indicators, such as falling five-year inflation swap rates, as evidence that inflation expectations are normalising, potentially allowing the Bank of England to ease monetary policy.

Others were more cautious, citing surveys showing elevated medium-term inflation expectations and highlighting the scale of government debt issuance as a factor likely to keep yields higher for longer. Geopolitical risks, particularly relating to the United States, were also discussed, with potential trade restrictions and fiscal policies seen as possible sources of renewed inflationary pressure.

Capital allocation and regional dynamics

Looking ahead, many contributors expect 2026 to mark a period of capital rotation. As competition from banks compresses debt returns, investors are anticipated to shift incrementally back towards equity, particularly where relative pricing begins to adjust.

Regionally, high costs and local taxes in London are encouraging greater interest in markets offering catch-up growth, including parts of the Northeast, Yorkshire, and Scotland. At the same time, institutional investment strategies are evolving, with UK local authority pension pools increasingly directing capital towards regional housing and infrastructure, reflecting a growing emphasis on socially conscious investment.

Towards a period of adjustment

The forum concluded that although the UK has avoided a recession following the interest rate shocks of 2023–2024, the real estate market still faces a demanding phase of adjustment. Securing investment performance in 2026 is expected to depend less on broad market recovery and more on disciplined asset management, careful navigation of refinancing risk, and a clearer understanding of value in a changing yield environment.

John Gellatly, Chair

RICS Property Investment Forum

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We are RICS. As a member-led chartered professional body working in the public interest, we uphold the highest technical and ethical standards.

We inspire professionalism, advance knowledge and support our members across global markets to make an effective contribution for the benefit of society. We independently regulate our members in the management of land, real estate, construction and infrastructure. Our work with others supports their professional practice and pioneers a natural and built environment that is sustainable, resilient and inclusive for all.

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