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ROUNDTABLE

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UK real estate keeps calm and carries on

The unsettled global situation has undermined the optimism surrounding UK real estate at the beginning of the year, but roundtable participants say the market's comparative stability remains its strength. Stuart Watson reports

The UK is a nation struggling to redefine itself. The transatlantic "special relationship" is under unprecedented strain. Post-Brexit, the country's position as the bridge to continental Europe for foreign capital has been undermined. And its pre-eminence as Europe's financial center is no longer uncontested.

The election of a Labour government with a huge parliamentary majority in July 2024 provided a degree of stability. But there is a growing perception that faced with a legacy of high national debt and crumbling public services, the new administration's efforts to improve productivity and boost growth are already faltering.

"The UK is a great place to invest, but it has got to step up and find its place again in the world, and we are not doing that right now," says Neil Slater, chief executive officer of asset manager Redevco. "It is incumbent upon business leaders to play a role."

That will be a taxing challenge in the unsettled global business and geopolitical climate which serves as the backdrop to *PERE*'s UK roundtable discussion. It takes place a few weeks after the Trump administration's 'Liberation Day' tariff announcement and the subsequent rollback of the more extreme reciprocal tariffs in the face of unrest in global markets.

It is difficult to know what the geopolitical and macroeconomic situation will be even a few weeks hence, notes Arvi Luoma, head of European equity at manager Cain International. "That makes people hesitant, so the immediate effect has been that some decisions have been paused."

That is true not just of real estate investors, but also of businesses, households and consumers, says Greg Kane, head of European investment research at PGIM Real Estate. And hesitancy about capital spending, hiring and expansion is bound to have an impact on demand for real estate.

"That is probably going to be the mood music for the next year or so – the persistence of elevated uncertainty. It will feed into real estate markets as a slowdown across the board by sector and geography," Kane predicts. Despite that "drag on activity," he believes the likelihood of a full-blown global recession has receded.

"We haven't seen live transactions paused. But the macro picture undermines conviction when people are looking at new opportunities," says Steven Cowins, global co-chair of the real estate funds practice at law firm Greenberg Traurig.

However, on the flipside, he suggests that global capital that would formerly have been allocated to US real estate may now be redirected to the other side of the Atlantic. "The tariff situation is not good overall. But on a

PHOTOGRAPHY: **RICHARD DAWSON**

Neil Slater

Chief executive officer, Redevco

Slater joined Redevco as CEO in 2023 from Aberdeen, where he was global head of real assets. Amsterdam-headquartered Redevco has around €9.5 billion of AUM overall, including a €5 billion European retail parks and logistics vehicle as well as retail and mixed-use, residential and real estate debt strategies.

Greg Kane

Head of European investment research, PGIM Real Estate

Based in London, Kane is a member of PGIM Real Estate's European Investment Committee. The firm is the real estate investment management business of PGIM, the principal asset management arm of Prudential Financial. It has total net AUM of $136 billion across core, core-plus and value-add equity strategies, as well as core, core-plus and high-yield debt vehicles.

Steven Cowins

Partner, Greenberg Traurig

Cowins is global co-chair of the real estate funds practice at Greenberg Traurig, one of the world's top law firms by revenue, employing more than 2,850 attorneys across 49 locations worldwide. He focuses his practice on private equity and fund formation matters, advising clients on establishing a wide range of UK, pan-European and global real estate funds, segregated mandates as well as joint ventures and M&A.

Arvi Luoma

Head of European equity, Cain International

Luoma leads Cain's European real estate equity business and oversees the team's strategy, operations and investment management activities. He co-founded specialist logistics and net lease manager Blackbrook Capital, which merged with Cain in 2024. Cain manages $17 billion of assets across the UK, Europe and the US across a range of real estate sectors.

relative basis, it probably favors Europe and the UK because the UK does look comparatively stable, albeit with some issues."

Some investors perceive that the UK real estate market has repriced faster and more thoroughly than its continental counterparts, says Luoma. "If they take that view, it may seem like an interesting point for them to get back into the market." Moreover, the geopolitical situation has "put the UK, if it plays its cards right, in a position to be quite influential as European countries work together to promote growth and become more self-reliant," he says.

Slater has observed more capital flowing toward Europe. However, he cautions that compared with continental markets, the UK is currently looking less attractive on a relative value basis. A substantial gap has opened between the UK interest rate, currently 4.25 percent, and the European Central Bank base rate of 2.25 percent. "UK 10-year government bond yields are 4.5 percent and debt is expensive here if you are a leveraged player."

Nonetheless, the UK offers the opportunity to deploy capital on a bigger scale than in-vogue continental markets like Spain, argues Cowins. "The UK also remains one of the most investable, liquid and transparent markets in Europe."

Debt versus equity

Elevated interest rates and the desire to reduce risk in an uncertain market environment will encourage real estate managers to continue to deploy capital through lending, suggests Kane. "The expectation of an equity-driven recovery being pushed out shifts the balance in favor of credit strategies."

However, slower growth projections look set to outweigh the potential for tariffs to push up inflation in central bankers' deliberations. "That could lead to expectations of more cuts to policy rates in the short term," he says.

Meanwhile, UK core investors will be watching changes in the base rate closely, says Luoma. If rates fall meaningfully, by 75-100 basis points, they will feel more comfortable about investing. "Rates coming down – and particularly an extraordinary rate cut that we may not expect – would fuel more activity from core capital, which then helps the rest of us."

"The UK is a great place to invest, but it has got to step up and find its place again in the world and we are not doing that right now"

NEIL SLATER
Redevco

Given current market conditions, it is probably easier to make the investment case for value-add assets than core, says Kane, although there are merits for both. Core real estate is generating decent returns and current high occupancy rates give it a resilient income profile, but it faces competition for capital from other asset classes such as investment-grade fixed income, he adds. "The relative return story still needs to shift a bit. That could be through property repricing or it could be through interest rates coming down."

At present, however, institutional core capital is "very limited," says

Return to the office encourages investors

Occupier and investor demand is focused on the best central London office space, participants say

"Given all of the negative press, I'm surprised by how much competition there is for office assets," says Steven Cowins of Greenberg Traurig. The law firm has been involved in some London office deals where agents have reported receiving up to 20 bids from potential buyers, he adds.

CBRE research shows that central London office investment volumes had their strongest start to the year since 2022, increasing 49 percent in Q1 2025 compared with the previous quarter to total £2.4 billion.

Occupier demand has been encouraging: "The stats show that lease-up activity in the City of London in particular has been really healthy recently," says Redevco's Neil Slater.

CBRE figures indicate the central London office market saw a strong finish to 2024, with take-up increasing for the fourth consecutive quarter to 3.5 million square feet, beating the long-term Q4 average by 3 percent and marking a 16 percent rise quarter-on-quarter.

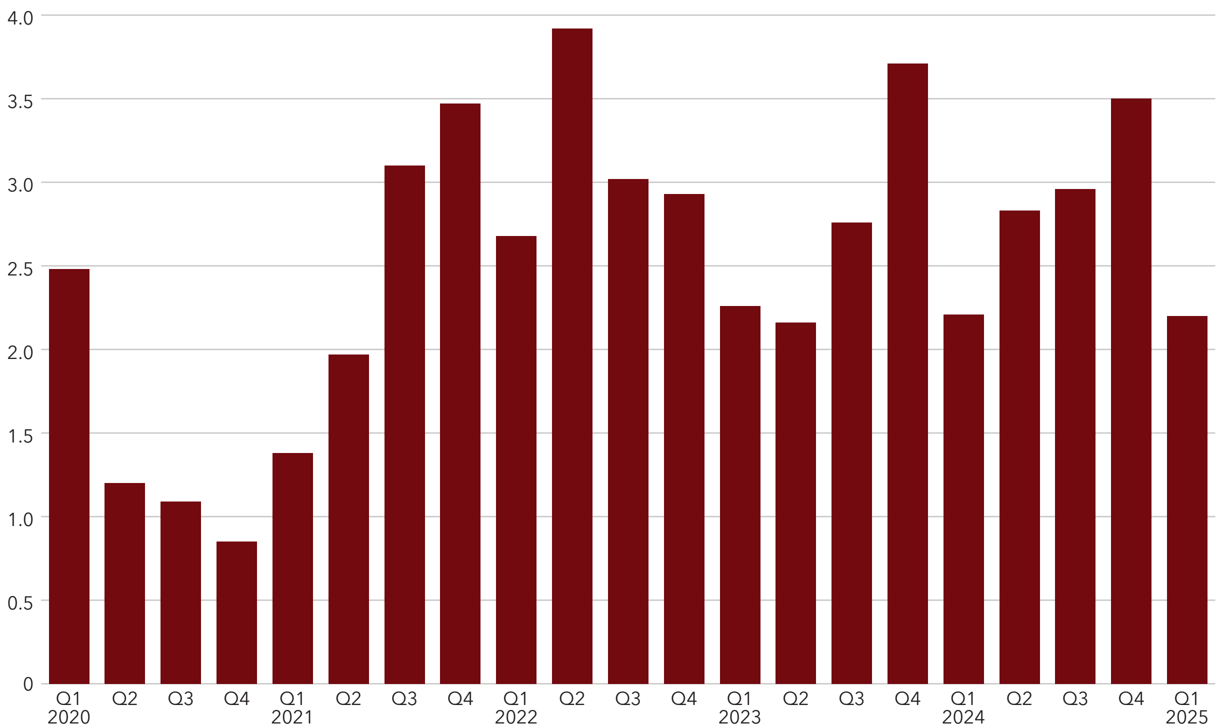
Take-up weakened somewhat in Q1 2025, however: the total of 2.2 million square feet was broadly unchanged against the same period last year. Nonetheless, the volume of space under offer continued to rise, representing signs of positive activity.

Cain International's Arvi Luoma believes demand is being driven by a gradual retreat from home working. "Post-covid companies planned for their employees coming into the office three days a week. Changing that to four days produces a huge increase in the square footage they need. And London doesn't have a large supply of available high-quality space."

Demand from occupiers, investors and debt providers is concentrated on the highest-quality, best-located space, says PGIM Real Estate's Greg Kane.

For lenders, that means competition for deals can be intense. "The amount of stock where there isn't a high risk of obsolescence is quite limited, so there are a lot of term sheets being submitted for those transactions, keeping lending margins tight," he says.

Central London office market leasing picked up in 2024, but take-up fell back again in Q1 2025 to 2.2 million square feet (Take-up, MSF)



Source: CBRE Research

Slater, with private buyers responsible for most UK core sales.

With little dislocation in the market there are few exciting buying opportunities, adds Kane. "Long-term interest rate expectations haven't changed very much over the past two or three years, and so at the moment everything is priced at broadly fair value."

An economic downturn causing stress in the occupier market could produce more dislocation. But value creation currently depends on traditional real estate factors, such as the quality of the asset, the cashflow and skillful asset management, he argues. "That is what we all want to get back to and in the end, that will be most important in the next cycle as a driver of returns."

Human capital

UK Prime Minister Keir Starmer's government has concluded that boosting growth is the only way to increase investment in public services and infrastructure while avoiding raising personal taxes and reducing the national debt. However, recently introduced revenue-raising measures, such as abolishing tax relief for non-domiciled taxpayers and increasing employer national insurance contributions, have been criticized in some quarters as counterproductive to the administration's wider goals.

A study by the Adam Smith Institute has claimed that the UK lost 10,800 millionaires to foreign countries in 2024, and Luoma worries that an "exodus of human capital" will hamper attempts to boost GDP growth. "Pushing away a significant portion of the population which drives investment and decision making is a real problem for the UK." He also argues that London is falling behind other global cities in terms of livability.

Kane believes in the continued attractiveness of the UK capital as an investment destination, nonetheless. "It has been a major global financial center for hundreds of years. Even if a few short-term policy decisions are made that detract from that, you can still be confident investing in London and the southeast of England on a long-term basis."

The struggle to increase productivity, cope with demographic change and quell social unrest is mirrored in many other countries, he argues. "A lot of these themes are global or at least pan-European in nature. Only the debt deficit dynamics are maybe a little more stretched here than some other countries."

Until it was derailed by recent global events, there was growing optimism that the environment for property investment and business in general was improving, Kane adds. "If better productivity comes through, that is what will drive rents and the desirability of investments."

Capital sources

The restructuring of the UK pensions industry has had a profound effect on domestic capital sources in private real estate. Defined benefit pension schemes have disappeared from the market, with defined contribution schemes not yet making up the deficit, says Cowins. "In the past we would raise funds which would have 20 or 30 DB schemes as their sources of capital, but that is just not coming into those types of funds anymore."

However, some managers have managed to tap into the DC market, he adds. The most active investors are local government pension schemes such as Greater Manchester Pension Fund, and comparable schemes in West Yorkshire and Merseyside, sometimes "buddying up" to invest together. "Managers have had to pivot to different capital sources – large Canadian or US pension funds, or sovereign wealth funds like GIC," he notes.

UK-focused commingled funds are still being closed, Cowins adds, but it remains a "tough" fundraising environment. "The market hasn't quite reached the point where it realizes that the only constant in life is change, so

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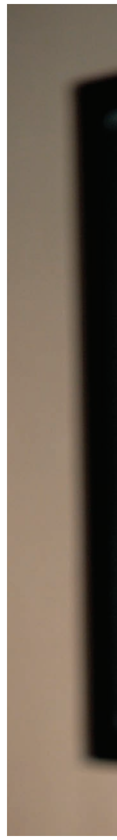
ARVI LUOMA
Cain International

"The market hasn't quite reached the point where it realizes that the only constant in life is change, so people still push the pause button when things happen"

STEVEN COWINS
Greenberg Traurig



people still push the pause button when things happen. Funds are being closed, but it is taking longer and the closings tend to be smaller."

PERE figures show just how difficult fundraising has been of late. Some $3.8 billion was committed to UK-specific private real estate funds that closed in 2022, down from $4.5 billion the previous year. In 2023, that plummeted to $900 million and last year was similarly poor, with only $700 million raised by funds closed.

Pan-European mega-funds aside, catch-all commingled structures are out of fashion, says Luoma. "There is generally more interest in doing discrete, closed-end, joint venture-type structures with distinct strategies, especially in an environment where there are all these issues." The trend will persist, he predicts. Meanwhile, institutions and sovereign funds are more inclined to create their own dedicated platforms investing in sectors and geographies that they favor.

In general, most capital is being raised for specialist strategies, large-scale funds and secondaries vehicles, says Slater. "There is definitely money out there for the right strategy." He points to recent examples, including Ardian and Rockfield creating a pan-European student housing platform with a €500 million commitment from CBRE Investment Management's indirect real estate business, and StepStone Group raising a $4.5 billion global real estate secondaries fund.

Kane cautions there is risk that recent transactions are a "backward-looking indicator" because they were conceived in a more benign capital market climate. However, he notes that increased allocations of capital coming to Europe, for example from Asian investors, are driven by real estate fundamentals, "and those haven't changed."

In some respects, the UK has an enduring appeal for international capital, argues Luoma. "Investors see the UK as fundamentally safe, secure and transparent. It's quite a small island with a large population. Tourism is huge here because of its history and London was seen as Europe's financial center. It has lost its mantle a bit, but it can capture that again."

Favored sectors

Given the tumultuous backdrop, it is unsurprising that the roundtable participants prefer UK real estate sectors with defensive and counter-cyclical characteristics. "We remain very high conviction on convenience and necessity retail," says Redevco's Slater. "We manage €5 billion in retail parks and they all include supermarkets. People need to shop there. That makes them hugely stable."

The living sector will be least affected by the threat of economic downturn,

Private equity firms target UK REITs for take-privates

Listed vehicles trading at discounts to NAV look vulnerable to takeover attempts

UK real estate investment trusts are increasingly being targeted by private equity firms looking to take them private and access their assets at a discount, notes Cain International's Arvi Luoma. "Shares in some of the REITs are trading at discounts of 30-40 percent to net asset value. For private equity shops that believe those numbers and can underwrite them, it is an interesting entry point."

In March, London-based Warehouse REIT said it would recommend Blackstone's £489 million offer to shareholders if a formal offer was received. However, after the roundtable discussion, but before press time, the buyer said it could no longer proceed with its bid under the current terms after unearthing several issues during its due diligence.

The sector has also seen consolidation, with FTSE 100 REIT

"The expectation of an equity-driven recovery being pushed out shifts the balance in favor of credit strategies"

GREG KANE
PGIM Real Estate

LondonMetric agreeing in May to buy Urban Logistics REIT for approximately £699 million.

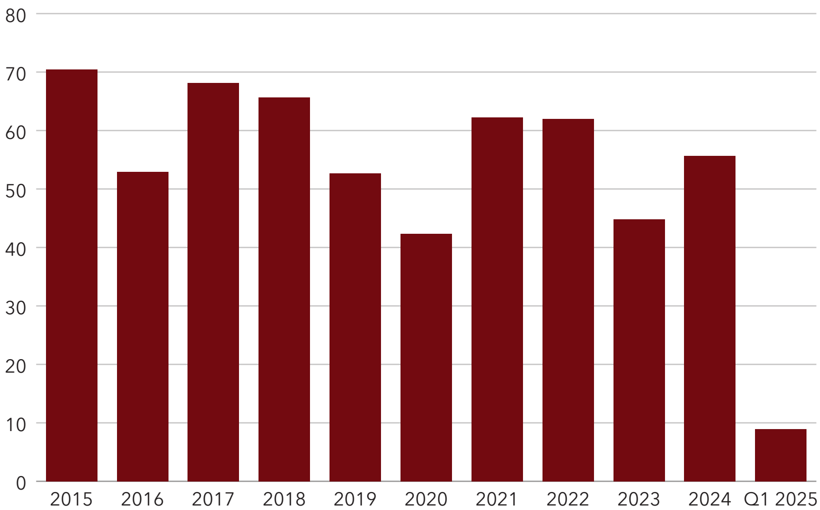
In a stronger market, potential sellers, including REITs, may have packaged up assets for a sales process, but several planned sales have been delayed until prices recover, says Greenberg Traurig's Steven Cowins. Meanwhile, REITs are finding it difficult to raise capital to grow their businesses because issuing shares while trading at a discount would dilute the value of existing holdings.

In April, London-based Supermarket Income REIT hit upon an innovative solution by inking a deal with US manager Blue Owl Capital to form a joint venture seeded with £403 million of UK food stores from its existing portfolio.

"REITs are a good capital structure in a strong market because they are liquid. But in periods like this, their room to maneuver is restricted. Blending public and private capital by doing joint ventures can be a way for them to get the best of both worlds," comments Cowins.

Larger REITs are better placed to explore such options, says Redevco's Neil Slater. "But if they can't get that scale, are trading at a discount and can't issue more equity, their position is difficult. We will probably see a couple of take-privates before interest rates fall and markets stabilize."

Real estate transaction volume in the UK increased by almost £11bn compared with 2023, but doubts remain over whether that momentum will be maintained this year (£bn)



Source: CBRE Research

argues Kane. "For us, the immediate impact of what's happening is a pivot towards living and living-related real estate activity, where that basic-needs demand is most resilient." Meanwhile, low supply is supporting rental growth in the residential segment. "We see that as the strongest play in the UK at the moment on a relative basis."

The drawback with UK multifamily housing is the relative immaturity of the market makes it hard to enter at scale, says Slater. "Long term, it is very interesting. But I'm happy, except for some focused developments and selective investments, to let others develop that scale, then consider income plays later."

Cowins singles out the purpose-built student accommodation sector as particularly attractive. "It is one step further removed from the risk of rent control being introduced, and there is less reputational risk if you raise rents than you get with private residential tenants. And unlike multifamily, you have more depth of stock here than you do on the continent."

Luoma is also convinced by the arguments for investing in UK PBSA. "One of the country's most valuable global exports is the academic system, and geopolitical trends are encouraging more international students to choose English-language courses in the UK. Plus, with the supply of new stock low, I can believe the rental growth story better than some other sectors."

The year ahead

CBRE figures show UK real estate investment volumes increased from £45 billion ($58.7 billion; €52.3 billion) in 2023 to £56 billion last year. By late 2024, both real estate indicators and investor sentiment suggested a good year ahead, says Kane. But as it transpired, "the wind has been taken out of our sails" by global events. Instead, he expects "a reasonable year, not a complete collapse," for UK real estate. Meanwhile, a loosening of monetary policy might help reduce the cost of capital.

If several big deals currently in the pipeline are closed, they will bolster UK investment volume this year, says Luoma. And capital redirected from the US to Europe could help to provide a compensatory uplift. "But the increase we were expecting in 2025 will probably be delayed to next year."

High levels of public debt will keep UK bond yields elevated, dampening activity in real estate markets, argues Slater. He expects a slight increase in transactions compared with 2024. "This year will be stable for the UK. We won't see any records broken," he says. "It's not a very technical analysis, but the market feels sort of okay."

The other participants nod their assent. The cliché goes that when British people are asked: "How are you?" the response is usually "could be worse." In these circumstances, that seems appropriate. ■