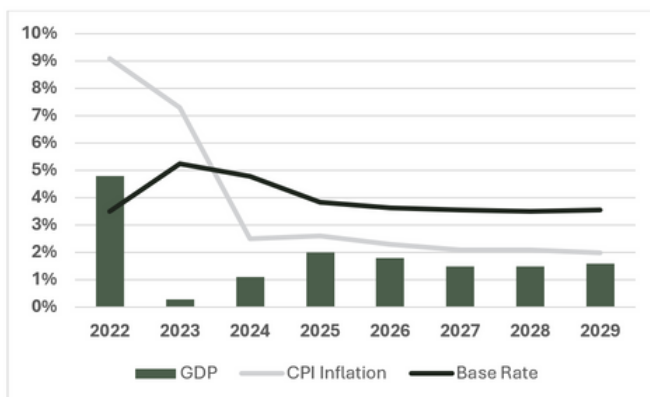


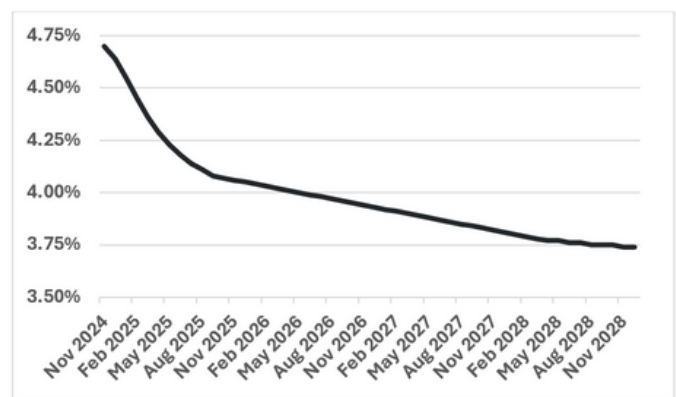
“Survive to 25” was the real estate industry plan for 2024, with hopes that falling inflation would see a reduction in UK (and global) interest rates which would, in turn, lead to an improved outlook for 2025.

### Actual and Forecast GDP and CPI



Source: ONS / OBR

### 3 Month SONIA forward Curve



Source: Chatham Financial

The fall in inflation has happened, with interest rates reducing from their peak of 5.25% to 4.75% by the end of 2024. Further falls are forecast during 2025, with UK market expectation being that interest rates will finish the year closer to 4.00%.

Real assets, such as property, benefit from falling interest rates, meaning investors allocate more capital towards real assets in this environment. Whilst the fall in interest rates may be slower than hoped for, it provides support to a recovery in real estate pricing.

Working against the pricing recovery is a poor global geopolitical outlook, over-leveraged western economies and the disappearance of political consensus. Whilst the UK has relative political stability, GDP growth remains low and activity is (generally) sluggish, which has muted demand. However, in every market there is opportunity and with this backdrop, we give our top picks (and why) for 2025 UK real estate:

## 1. UK Single Family Residential Real Estate: Debt

The UK housing market in 2025 will continue to grapple with affordability challenges, due to lack of supply (c.220,000 new homes in 2024) and net migration being at record numbers (c.900,000 in 2024). Despite government initiatives aimed at addressing this issue, including revisions to the planning system and additional funding options for housebuilding Small or Medium Enterprises (“SMEs”), the fundamental imbalance between supply and demand is unlikely to be resolved for many years to come.

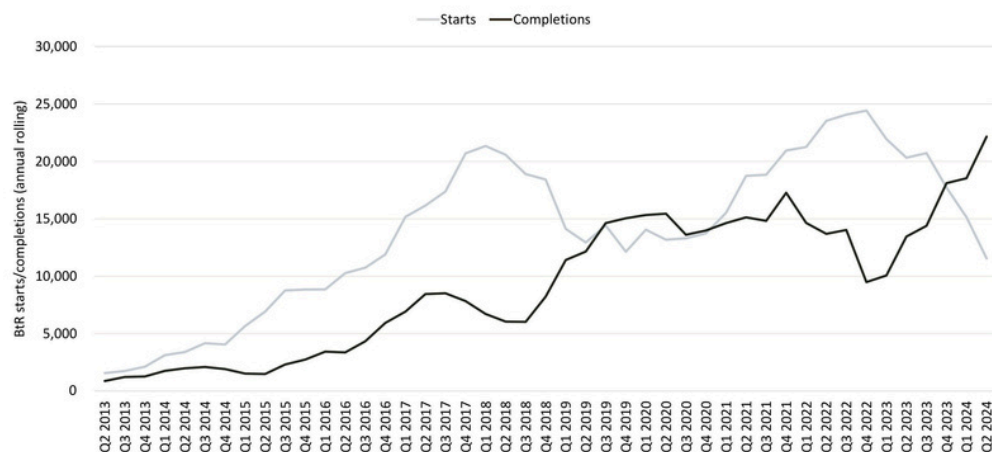
Low-rise suburban housing is easier to design, quicker to build and has less construction cost risk. Delivery is key but this will require access to finance for smaller housebuilders, as the large housebuilders cannot pick up the supply strain on their own.

We are accessing this thematic through lending senior development debt to SME housebuilders via our investment into a specialist lender. It has social purpose, by supporting the delivery of much needed housing, and provides superior risk adjusted returns, with 12%+ IRR for 65% loan to value senior secured lending .

## **2: UK Multi-Family Residential Real Estate: Equity**

The institutional private rental sector is expected to grow as more people are priced out of homeownership and institutional investors continue to seek inflation correlated returns and diversified cashflows. Build-to-Rent apartments will play a key role in meeting this demand, particularly in urban centres. These developments, being purpose built for long-term rental, offer amenities and professional management, appealing to younger professionals and families.

### **UK BtR Starts and Completions**



Source: BPF

Whilst the multi-family submarket has seen a massive increase in investor appetite over the last decade, in 2024 it still only accounts for c.100,000 units out of a total rental market of 5 million units. There has been a dramatic reduction in new construction over recent years, as building design requirements have changed, costs have increased dramatically and the institutional appetite for forward funding development has stalled.

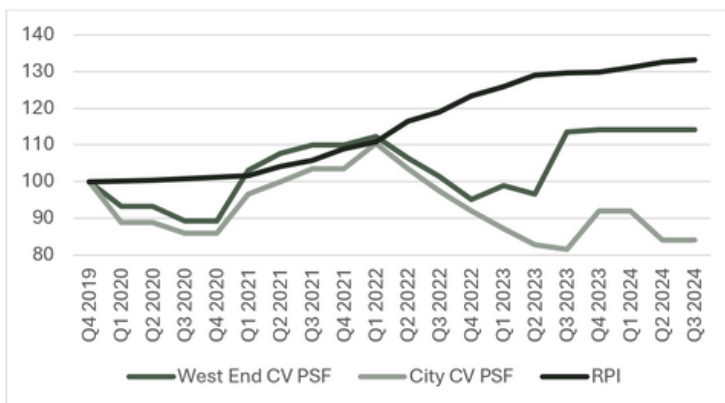
The sector needs additional equity to help re-design and then build out developments across the UK. The market also needs more high-quality developer / operators to emerge that are well-resourced, well managed and credible partners for institutions. These will have strong governance and processes in place to reduce risk, alongside a customer centric, data driven approach to improve returns.

### **3: Offices (especially London)**

The office market increasingly reflects a stabilised hybrid working model, with demand for high-quality, flexible, and sustainable offices remaining strong. Employers are increasingly focusing on creating collaborative and inspiring work environments to attract and retain talent, leading to a “flight to quality” in the office sector. This demand for Grade A has already led to rental growth in markets where the quantity of new or nearly new accommodation is scarce. In London whilst vacancy rates are c 8% overall, in the West End and City it is <2% for Grade A, with this Grade accounting for 70% of the take up in Q3 2024.

London office values have lagged in recent years on the back of reduced investor demand and interest rate movements. We expect this to change, as international investors seek safe havens in an uncertain world.

#### **Rebased Capital Values PSF (Q4 2019 = 100)**



Source: Allsops & Cushman & Wakefield

Outside of London, there is a continuing need to upgrade the quality of accommodation as part of sustainability considerations. Tenants and investors continue to place the highest value for buildings with strong environmental credentials, driving demand for net-zero carbon buildings and those with high BREEAM and Energy Performance Certificate ratings. Best in class, well located assets on long leases are worth buying as they will benefit from both rental growth and yield compression over the years ahead.

### **4: UK Smaller Unit Industrial Real Estate**

The industrial and logistics sector is expected to remain one of the strongest performers in the UK real estate market in 2025. The surge in e-commerce and the demand for efficient supply chains have driven unprecedented growth in this sector, a trend that has moderated but is likely to continue. Onshoring will continue, with UK based manufacturers increasing their storage capability to ensure more capacity in their supply chain. Warehousing facilities near major population centres will be in high demand, driven by the need for quick delivery times. The scarcity of available land in key locations will lead to rising rents.

Industrial real estate will increasingly integrate sustainability features, including renewable energy sources and energy-efficient designs. Smart warehouses with advanced automation and robotics will become more common, boosting operational efficiency for tenants.

### **Conclusion**

The UK real estate market in 2025 will be a dynamic and evolving landscape, shaped by domestic political stability, geopolitical instability, shifting demand patterns, and the ongoing importance of sustainability.

While challenges remain, such as affordability issues in the residential sector and the ongoing transformation of commercial real estate, there are opportunities abound for those who adapt to new market realities. Investors must focus on innovation, resilience, and long-term planning to navigate this complex environment, partnering with best-in-class sector specialists who understand the operational drivers of real estate.

At Ashen Capital, we aim to participate through backing best-in-class sector specialists; providing capital and management expertise to professionalise these businesses, ensuring that they are enabled to partner successfully with deeper pools of capital.



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