

# UK real estate market outlook – a view from Freeths

The economic picture in the UK is currently largely driven by two interconnected factors – high inflation and rising interest rates. The Bank of England increased the base rate again this year to 5.25% in August 2023, the intention of which is to slow growth to bring down inflation

The latest Treasury-compiled consensus forecast in August puts growth at just 0.3% for 2023, with almost no growth expected in the second half of this year. Separately, the cost of debt has risen rapidly.

The UK commercial real estate sector is operating within this uncertain economic context, which translates to less deal flow and transactions taking longer to execute. Data taken from the Q2 2023 RICS UK Commercial Property Survey identifies a slow in occupier demand, with lowest demand in the retail sector, followed by the office sector with the industrial sector remaining more positive but well below its peak demand in Q2 2022. More positively, in terms of rental growth, respondents anticipate strong rental growth for prime industrial and prime office property over the next 12 months but noting a decrease in growth for secondary offices, which is evidencing a “flight to quality” for office space, particularly in key city centres across the country.

The commercial real estate market also remains impacted by supply as developers of UK property have been and continue to be impacted by high building costs, supply chain issues and increased regulation, for example, the Building Safety Act 2022 which follows the devastating Grenfell tower fire in London in June 2017.

Commentators are reporting a shortage of supply across the country in the student housing sector and we are seeing increased deal flow in the later living / care and life sciences sectors.

Investment in UK real estate has arguably never been as heavily regulated as it is today. There is further regulation impacting overseas investment into the UK real estate market with the registrations required on sale and acquisition of land and buildings in England, Wales and Northern Ireland following enactment of the Economic Crime (Transparency and Enforcement) Act 2022.

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Let us help you navigate real estate investment into the UK. Our real estate investment team includes lawyers from real estate; finance; tax; planning; construction; and environmental. We have market leading experts with in depth industry knowledge and experience.

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## Key contacts

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