

REVIEW

UK LIVING MARKET

UPDATE Q3 2025

RESEARCH & INSIGHTS



**BNP PARIBAS
REAL ESTATE**

Real Estate for a changing world



The UK labour market is showing signs it is past the peak recalibration to policy-driven increases in labour costs. April's rise in employer National Insurance Contributions and National Living Wage reduced labour demand, which led to several months of falling employment. Recent data suggests this downward trend is easing; vacancies rose in July for the first time in over a year and job losses have slowed.

Survey data from the Bank of England (BoE) paints a similar picture, with fewer CFOs planning to offset higher costs by cutting jobs or wages. Instead, more are absorbing costs through reduced profit margins. This is a welcome sign for the BoE as it points to lower inflation. The downside, however, is that weaker profitability usually signals softer demand. This reinforces the view that GDP growth in Q3 will undershoot the BoE's 0.4% q/q projections.

While the BoE's rate cuts attract attention, gilt yields, which remain high, are shaped more by investors' expectations of where interest rates will be over the life of the bond. This helps to explain why 10-year gilt yields remain close to the highs last seen in 2008, despite three rate cuts this year. These were largely anticipated and already priced into gilt yields. For long-term yields to fall, investors would need to shift their expectations towards a lower path for future interest rates, which would require a reduction in structural inflationary pressures.

Other factors are also keeping 10-year gilt yields elevated. Demand for gilts has weakened, as pension funds and the BoE have scaled back purchases, with the latter reducing its holdings through 'Quantitative Tightening' (QT).

At the same time, government borrowing has grown sharply since the pandemic, forcing the Treasury to offer higher yields to attract buyers. UK yields are further influenced by high borrowing costs in the US and Europe. Finally, concerns about the UK's debt, particularly after the 2022 mini-budget, likely means that investors are demanding extra compensation for risk.

At the BoE's September meeting, it kept its base rate unchanged at 4.00%, but made a more notable shift in its bond-selling programme, QT. The scale of planned QT for 2025-26 was cut from £100bn to £70bn, which will reduce the supply of bonds flowing into the market.

The BoE is currently realising losses on its sales, as bonds are worth less than when they were purchased. These losses are passed on to the Treasury, adding to the government's deficit. By slowing the pace of QT, the BoE is easing that burden. It has also chosen to focus more on selling shorter-dated bonds rather than longer maturities. Similarly, the Debt Management Office is expected to continue to skew new bond issuance towards shorter dated bonds. Both of these factors should support long-term prices and take upward pressure off yields.

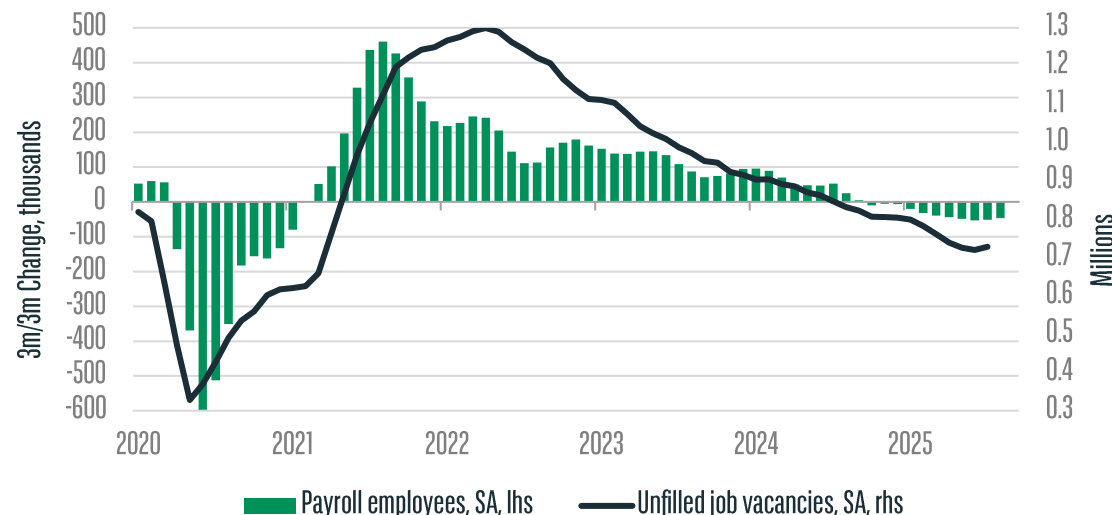
Overall, it's expected that 10-year gilt yields will remain close to 4.6% in the near term. The next major risk event to this view will be the Autumn Budget on 26 November as the Chancellor faces a trade-off between fiscal sustainability and economic growth.

The focus across the Living sectors in Q3 remained on the slowdown in the delivery of new homes and the impending Renters' Rights Bill. There were some amendments back on the table in Q3, but the Bill was approved by Parliament and gained Royal Assent soon after the quarter ended. Meanwhile, the industry welcomed news that Scottish rent caps would not apply to Build to Rent (BTR) schemes, which should serve to unlock investment in the market.

"September's PMI data showed business sentiment remained resilient. However, this could be tested at the Autumn Budget, as further fiscal consolidation to meet government rules is likely to dampen demand. A potential silver lining is that tighter fiscal policy could allow another rate cut in December."



Labour market slowdown eases



Source: ONS, Macrobond



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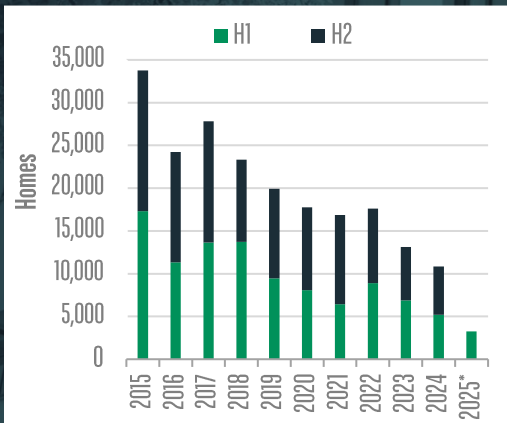


5.5%

Average annual rental growth
September 2025

Source: ONS

London Residential Construction Starts



Source: Molior London *2025 Q1-Q3

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BUILD TO RENT AND SINGLE-FAMILY RENTAL

The Build to Rent (BTR) and Single-Family Rental (SFR) sectors continued to experience a softening in supply side momentum over Q3 2025. The erosion of development viability over the last 5 years has made new home delivery very challenging. Combined with delays stemming from essential changes in building regulations has resulted in sluggish supply growth.

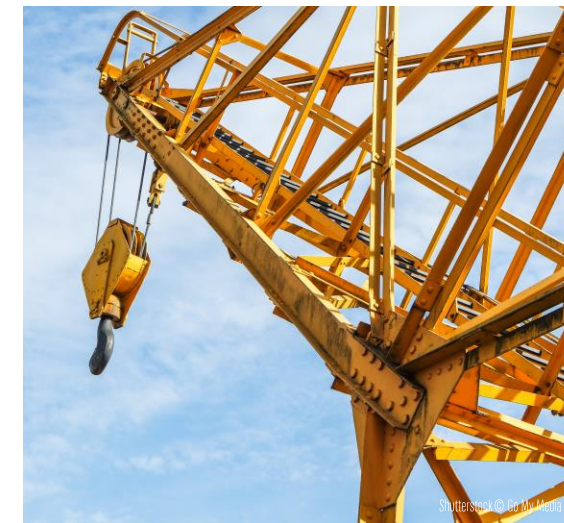
According to Molior London construction starts in the Capital have been in decline over the last 10 years and reported that 23 London boroughs saw no new starts on developments of 20 or more private homes in Q3 2025. Nationally net additions in 2023/24 fell in almost every region compared to a year earlier and the number of housing completions across the country in the 12 months to Q2 2025 were at their lowest level since the end of 2016 (source: MHCLG). These metrics all point towards severe supply shortfalls over the coming years.

Moreover, the Renters' Rights Bill, a once in a lifetime change to the rental landscape that offers greater protection for tenants, is expected to have an impact on

supply in the market as some buy-to-let landlords look to leave the sector. Additionally, it could increase rental demand as potential tenants gain more comfort with the sector and recognise the security the Bill will bring.

In the meantime, Zoopla have reported some of the steam has come out of the market with demand 24% lower than last year, and weaker rental growth as a result. However, the persistent supply shortfalls suggest that rents will remain under some upward pressure over the short to medium term.

The ONS reported average annual rental growth slowed to 5.5% in September 2025 however this varied nationally with rents flat in Leeds and Bristol, whilst London, Birmingham and Manchester all reporting rental growth above 5%. Whilst there are real concerns regarding affordability within the rental market, analysis undertaken by BNP Paribas Real Estate showed that the average two bed rent in London as a proportion of the income of two people on median London wages has eased a little after a period of strong wage growth.



INVESTMENT ACTIVITY

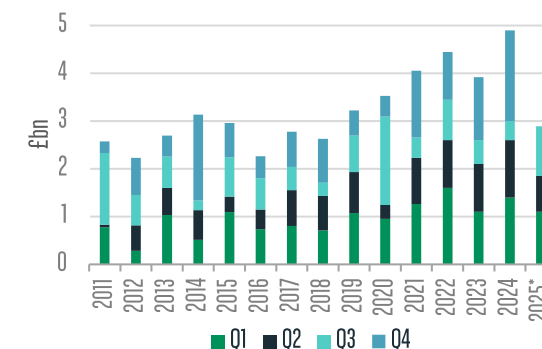
The BTR and SFR sectors were fairly active in Q3 with volumes of c.£1bn surpassing third quarter volumes over the last four years. Whilst there were several deals to note these were dominated by overseas players who continued to grow their exposure to the UK residential market in Q3.

QuadReal, the Canadian-based global investment, development and operating company, announced that they had purchased the operating and management platform UNCLE from Realstar Group increasing their exposure in the UK. New market entrant, Arada, a Dubai-based developer, acquired a 75% stake in Regal. Greystar purchased a stabilized BTR asset in Barking from Invesco for c.£170m, and Kennedy Wilson in their joint venture with CPPIB, purchased 275 SFR homes across three sites from two separate housebuilders for c.£100m.

Meanwhile domestic institutional investors were notably absent from the market over the quarter. The erosion of the spread over the risk-free rate over the last three years has been challenging for investors with core strategies. Although residential yields have risen, the cost of borrowing for investors that use debt has made acquisitions difficult, impacting particularly on the ability to underwrite projects.

Elsewhere, Aviva Capital Partners and Moda Living secured a £200m+ funding agreement with NatWest, Homes England and West Midlands Combined Authority to deliver a 1,000-home rental community in Digbeth, whilst Eldridge Real Estate Credit provided a c.£128m loan to Court Collaboration for the delivery of Edition Birmingham; 581 rental homes across two towers.

Build to Rent, Single Family Rental and Co-Living Investment Volumes



Source: BNP Paribas Real Estate, MSCI
*provisional



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“There continue to be concerns regarding student demand for UK higher education, impacting sentiment across the sector. These concerns stem from several factors including the rising cost of accommodation, tuition fees, demographics and changes in visa rules.”



STUDENT HOUSING

Whilst there was apprehension around the health of the sector in Q3 2025, the latest data from UCAS published after results day in August, provided a brighter picture with the number of UK 18-year-olds accepted hitting record highs, increasing 3.7% y/y. Overall, 512,270 applicants were accepted to UK higher education (based on UCAS data 28 days after results day), up 2.8% compared to the previous cycle. This is the highest level of acceptances since 2016.

A closer look showed that the number of acceptances from international undergraduate students increased 5.6% y/y to 64,530 with demand growing from both China and US. However, there is a divergence between demand between higher tariff and lower tariff providers.

The UCAS data showed increases in demand from UK 18-year-olds for higher and medium tariff providers but a fall in demand for lower tariff providers. This is a

trend also seen amongst applications and acceptances from international students.

Looking at visa outcome data at the end of Q2 2025 showed that despite concerns around the change in immigration laws regarding postgraduates and their families, main applicant visa outcome increased 24% compared to Q2 2024.

Nonetheless the concerns around demand persist and are impacting on occupancy as well as sentiment in the sector with certain towns and cities more impacted than others. In particular those markets where new supply may have increased in relation to demand could translate into weaker rental growth. On the flipside, the impending Renters' Rights Bill is expected to have some impact on the Houses of Multiple Occupation (HMOs) market and could result in tighter supply of homes for students as landlords in that part of the market look to exit the sector.



INVESTMENT ACTIVITY

Despite some of the concerns around future demand for UK higher education, the student housing sector recorded its strongest level of investment activity in Q3 2025 in over a year, at c.£1.3bn and looks set to surpass the last two years total annual investment in Q4 2025. This was driven by a mix of large portfolio deals as well as single stock transactions, with investors focused on quality assets in strong locations as well as value-add opportunities. The majority of capital deployed was from overseas investors.

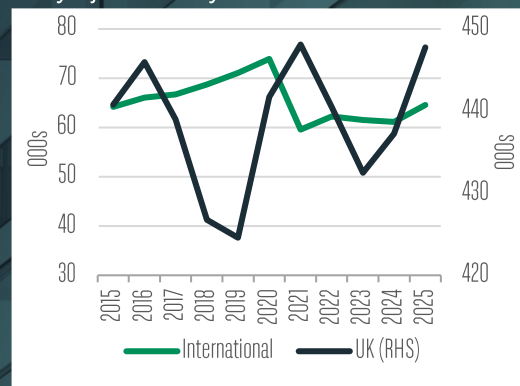
The largest transaction of the quarter, accounting for almost half of all volumes, was QuadReal's acquisition of a large portfolio from Apollo Global RE for c.£500m. This included 3,460 purpose-built student beds across eight highly amenitised assets, with 75% of the portfolio situated close to Russell Group universities.

Generation Partners and Goldman Sachs Alternatives made one of the largest single-asset transactions in Q3, purchasing Portswood House; a 435-bed PBSA asset in Southampton, for £86m.

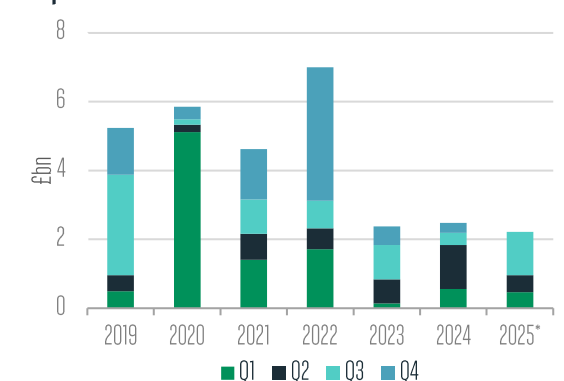
Highlighting the interest in value-add opportunities in the market, in September ActivumSG and The Mansion Group Holdings announced their strategy to build a £500m+ platform, focused on the repositioning of existing PBSA stock, focussed on stock primarily across Russell Group university cities, whilst M&G purchased Ropemaker Court in Manchester which it planned to take through a refurbishment programme.

Meanwhile a number of large loan facilities were agreed in Q3 highlighting the continued appetite from lenders towards the sector including the refinancing of the £1.4bn Chapter portfolio.

End of cycle - acceptances
28 days after results day



Purpose Built Student Accommodation Investment Volumes



BNP Paribas Real Estate, MSCI
**provisional



Q3 2025

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2022: 1.7m

2047: 3.3m

PEOPLE AGED 85 YEARS AND OVER

Investment



7.4m

↓ -3.0 % y/y

NHS WAITING LISTS
Aug 2025



2024: £42bn

2040: £90bn

FORECAST COST OF
DEMENTIA

ONS, NHS England, Alzheimer's Society

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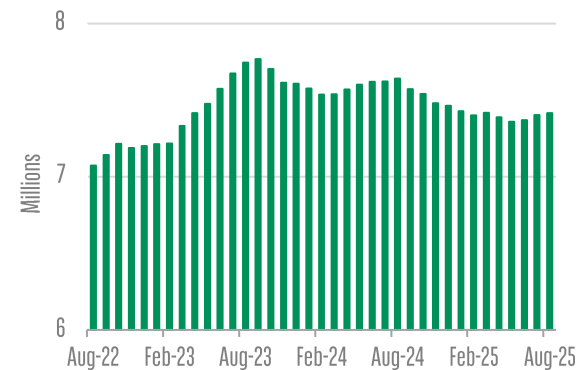


HEALTHCARE AND SENIOR LIVING

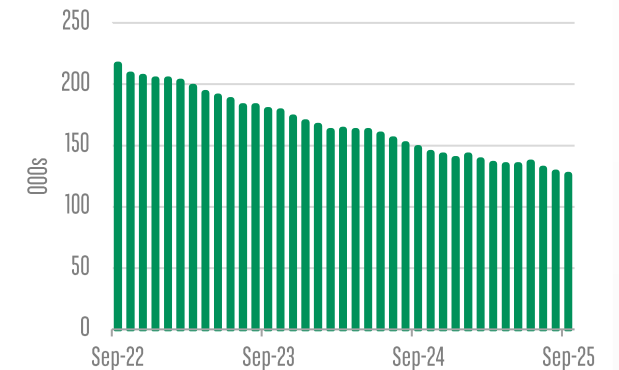
There is a compelling case for investment into the Healthcare and Senior Living sectors. The UK faces growing demand for healthcare services as a result of an increase in age-related conditions such as dementia and complex care needs, as well as a growing mental health crisis. The shortfall of supply and ever-increasing demand means these sectors are underpinned by structural fundamentals that look unlikely to improve over the short or medium term.

The private healthcare sector continues to record increases in demand and this, along with the UK's ageing population presents opportunities for real estate investors. Investors continue to recognise the long-term stability, consistent demand and resilient returns. This defensive sector can be a beneficial portfolio diversifier.

NHS Waiting Lists



Job Vacancies: Human Health & Social Work Activities



Key Healthcare and Senior Living Activity

INVESTOR	LOCATION	DETAILS	SECTOR	DATE
CareTrust REIT	National	Acquisition of a two-asset portfolio for c.£20m; 265 beds leased to an existing operator under long-term triple-net leases that include extension options and annual escalators	Care Home	Sep-25
Maven Healthcare	East Midlands/Scotland	Acquisition of a two-asset portfolio from Priory Group; 143 units	Care Home	Sep-25
Target Healthcare	National	Refinancing of existing facility; £200m from RBS and HSBC	Care Home	Sep-25
Avery Healthcare	National	Acquisition of Artisan Care group, the owner of 10 purpose-built care homes; 774 beds	Care Home	Aug-25
Riverstone Living	London	Refinancing of Riverstone Living Kensington; £186m from Arini	Senior Living	Jul-25

Glenigan, NHS England, ONS, BNP Paribas Real Estate



**KEY
LIVING
SECTOR
ACTIVITY**

INVESTOR	LOCATION	DETAILS	SECTOR	DATE
Vita Group	Glasgow	Acquisition of landmark building, Met Tower, for redevelopment into co-living homes	Co-living	Aug-25
Greystar	London	Acquisition of Barking Wharf, a stabilised 595-home BTR asset, from Invesco UK for c.£170m	BTR	Sep-25
QuadReal	National	Acquisition of the Realstar Residential operating platform including the UNCLE brand	BTR	Sep-25
Moorfield Group and Greater Manchester Pension Fund	Manchester	Joint venture partnership to develop, own and operate £120m, 440-home BTR development in Trafford	BTR	Sep-25
JRL Group and Housing Growth Partnership	Luton	Formed a £145m joint venture partnership to deliver Castle Street; a 414-home BTR development in Luton	BTR	Sep-25
Kennedy Wilson and CPPIB	National	Acquisition of 275 SFR homes across three sites from two housebuilders for c.£100m	Single-Family	Jul-25
Sigma Capital Group	National	Acquisition of four sites with GDC c.£100m to deliver 415 new homes with Vistry Group	Single-Family	Jul-25
Hines	Glasgow	Acquisition of Solasta Riverside, a stabilised 324-home BTR asset, from Legal and General	Single-Family	Jul-25
Hunter REIM	Edinburgh	Acquisition of a site at Edmonstone Estate for a £105m development of 370 new homes	Single-Family	Aug-25
Generation Partners and Goldman Sachs Alternatives	Southampton	Acquisition of a purpose-built student accommodation in Southampton for c.£86m; 435 beds	Student	Jul-25
QuadReal	National	Acquisition of an eight-asset purpose-built student accommodation portfolio from Apollo Global RE for c.£500m; 3,460 beds	Student	Jul-25
MCR Property	Midlands	Acquisition of a five-asset purpose-built student accommodation portfolio from Arlington Advisors; 1,013 beds	Student	Aug-25
ActivumSG and Mansion Group	National	Acquisition of a five-asset purpose-built student accommodation portfolio from 90 North RE Partners for c£84m; 795 beds	Student	Aug-25
Barwood Capital	Birmingham	Acquisition of a purpose-built student accommodation in Edgbaston from Cassidy Group for c.£30m; 230 beds	Student	Aug-25
M&G Real Estate and Spinnaker Estates	Manchester	Acquisition of a purpose-built student accommodation for refurbishment in Manchester for c.£42m; 415 beds	Student	Sep-25
KKR	National	Acquisition of a seven-asset purpose-built student accommodation portfolio from Curlew Capital for c.£230m; 2,179 beds	Student	Sep-25

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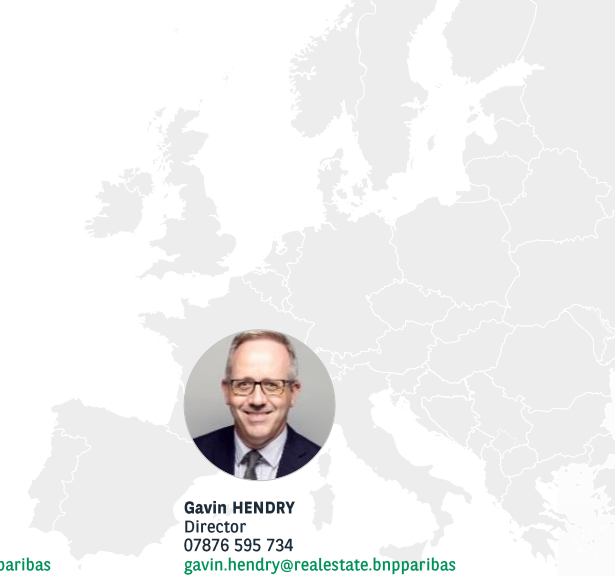
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Q3 2025

UK LIVING MARKET



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