

FUTURE

ECONOMIC & REAL ESTATE BRIEFING

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RESEARCH & INSIGHTS



**BNP PARIBAS
REAL ESTATE**

Real Estate for a changing world

ECONOMY

By Sam Hall, Real Estate Economist

“The Chancellor’s decision to expand fiscal buffers against future economic shocks should help to build some credibility with investors. However, there are question marks around the deliverability of delayed tax increases and the government’s longer term fiscal plans.”

OBR forecasts save Chancellor from a painful Budget:

The Chancellor was able to avoid delivering a particularly painful Autumn Budget, largely due to a more optimistic economic outlook presented by the government’s independent fiscal watchdog, the Office for Budget Responsibility (OBR). Prior to the Budget, widely publicised downgrades to the OBR’s productivity growth forecasts and the reversal of welfare spending cuts had led many to anticipate a significant fiscal shortfall. In contrary to these expectations, the OBR’s upgrades to its inflation and wage forecasts improved the government’s revenue outlook, limiting the scale of the repair job needed for public finances.

As a result, rather than resorting to increases in income tax rates, the Chancellor implemented a series of smaller tax adjustments. Notably, the largest revenue-raising measures - the freeze in income tax thresholds (£8bn) and NIC charges on salary-sacrificed pension contributions (£5bn) - will not take effect until 2028-29. Overall, the OBR estimates that tax changes will raise an additional £26bn by 2029-30. This is expected to offset an £11bn rise in government spending, resulting in a net tightening of fiscal policy (figure 1).

Larger fiscal buffer built on shaky foundations: The key question heading into the Autumn Budget was the extent

to which the Chancellor would need to increase taxes or cut spending to remain compliant with the government’s main fiscal rule. This requires the government to fully fund its day-to-day spending with tax revenues by 2029-30. As it turned out, the Chancellor was already on course to meet this rule at the time of the Budget, with a margin of £4bn. Therefore, bond investors can take some reassurance from the decision to expand headroom even further to £22bn - a buffer larger than the consensus expectation of £15-20bn. The rationale for this additional headroom is to protect the government’s finances from future economic shocks and temper speculation about tax rises at future fiscal events. By reinforcing its commitment to fiscal responsibility, the Chancellor will hope to minimise the risk premium embedded in government bonds, in turn helping to lower borrowing costs.

The initial market reaction was relatively benign, which suggests investors broadly accepted the policy changes - at least for now. Questions remain around the practical implementation of these measures, particularly given the delayed timing of tax increases and spending cuts. Moreover, we believe that long-term debt sustainability challenges still require a more meaningful rethink of fiscal policy, as governments face growing pressure to increase defence spending, address the needs of an ageing population and support the climate transition.

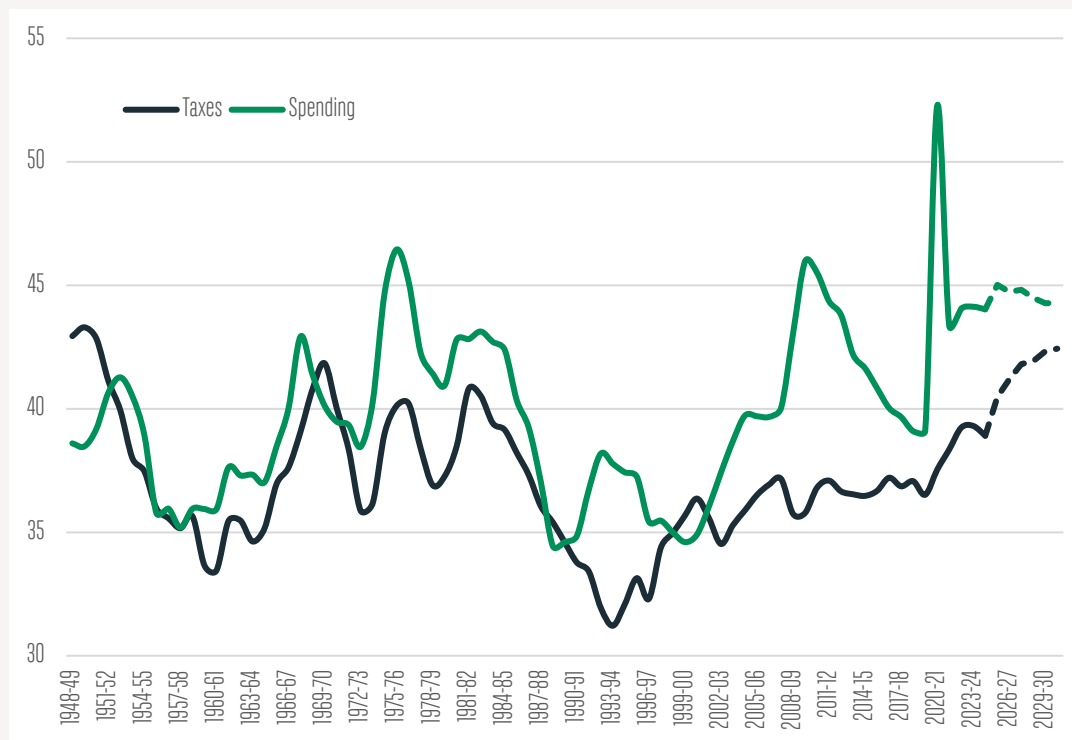
£22bn GOVERNMENT’S HEADROOM AGAINST MAIN FISCAL RULE

Source: OBR. Data and forecasts as at 27.11.2025.

1.4% OBR FORECAST FOR UK ANNUAL REAL GDP GROWTH IN 2026

40bps REDUCTION IN INFLATION FROM BUDGET MEASURES

FIGURE 1. Tax vs spending as share of GDP (%)



Source: OBR

ECONOMY



“The Chancellor’s policy measures are unlikely to significantly alter the UK’s growth trajectory. But by pushing inflation lower in 2026, they strengthen the case for additional interest rate cuts in the coming months.”

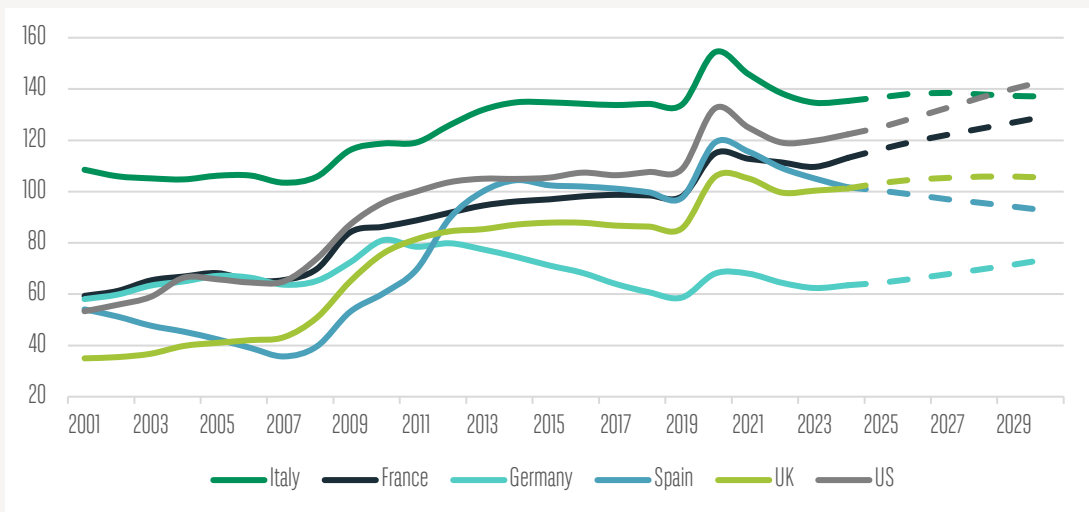
That said, we think the government’s plans are sufficient for the near term and should help to build some credibility with investors. Moreover, the UK’s stable debt trajectory compares well with peers such as France and the US, where debt sustainability pressures are more acute (figure 2).

Lower inflation strengthens case for rate cuts: The Budget is unlikely to significantly alter the UK’s growth trajectory. According to the OBR, increased government consumption and investment may provide some limited short-term support. As a result of the fiscal giveaways announced, we nudged up our 2026 GDP forecast from 1.0% to 1.1%. Beyond 2026, the positive impact of Budget measures is set to wane as higher taxes weigh on consumer spending, as reflected

in the OBR’s forecasts.

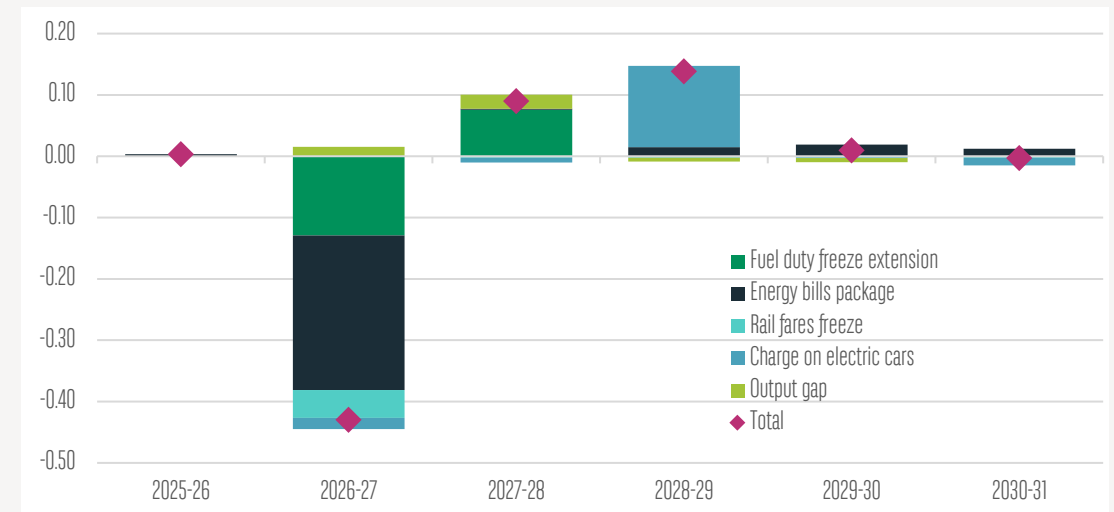
In line with the Chancellor’s objective to address the cost-of-living crisis, policy interventions such as the energy bills support package and the extended freeze on fuel duty are estimated by the OBR to lower CPI inflation by 40 basis points in 2026-27 (figure 3). This strengthens our conviction that additional interest rate cuts will be delivered in the coming months. But these measures are unlikely to trigger a deeper easing cycle in the near term, as they will predominantly affect headline inflation rather than underlying inflationary pressures. As a result, we maintain our view that the Bank of England will lower its base rate in December and again in the first quarter of 2026 to 3.50%.

FIGURE 2. IMF debt to GDP forecasts (%)



Source: IMF

FIGURE 3. Impact of Budget policies on CPI Inflation (percentage points)



Source: OBR

REAL ESTATE

By Charlie Tattersall, Senior Associate Director, Capital Markets Research

“The Autumn Budget contained no big surprises for the real estate sector, and stabilises a volatile economic backdrop, at least for now. This should help investment liquidity improve as we head into 2026.”

Autumn Budget: Greater clarity (for now): The government’s Autumn Budget comes amid a period of economic uncertainty and political turbulence for real estate investors. Leasing conditions remain supportive of robust income growth, keeping pace with or surpassing long-term inflation. However, a cautious, wait-and-see approach has characterised the investment market this year. Commercial sector investment volumes (excluding Beds) are more than 20% below the post-GFC average, despite average annual asset value growth in these sectors (as measured by MSCI) hitting a strong 3.2% in Q3 2025 (figure 4).

Most Budget policies were widely trailed, resulting in a muted market reaction. The Budget’s moderately disinflationary stance reinforces expectations of at least two base rate cuts in the next six months, with an outside of a third cut. Investors have a clearer policy environment, at least for now, along with improved fiscal headroom and lower-than-expected bond issuance. These factors should support the real estate investment market in the near term by stabilising rates volatility and extending the downward trend in the cost of capital.

...but fiscal fears cloud the long-term outlook: Nonetheless, the Budget falls short of easing concerns about long-term fiscal sustainability. Many tax increases

are back-dated and aligned with the next General Election, and much of the additional spending is aimed at welfare and debt interest, which do little to boost growth or productivity. Above all, compared to the Spring Statement, borrowing is higher in almost every year of the OBR’s forecast. In short, the Chancellor’s plans are not enough to convince bond markets that the public finances are on a structurally improved footing. The UK is not unique in facing fiscal pressures, but this is reflected in the persistently steep yield curve and the high forward projections for debt costs (figure 5). This, combined with a narrow spread between property yields and risk-free rates, makes long-term real estate investment underwriting more challenging and exit assumptions less certain.

Sectoral winners & losers: The government’s ongoing commitment to planning reform remains critical for UK real estate, aiming to make development less risky and more predictable, particularly in high-demand areas. This should support land values and spur new-build activity. The Office for Budget Responsibility forecasts a 30% rise in annual housebuilding by 2029, with 170,000 new homes annually by 2034-35, promising improved prospects for investors in residential and mixed-use sectors. While increasing planning capacity is a positive step, delivering on these ambitions remains a challenge.

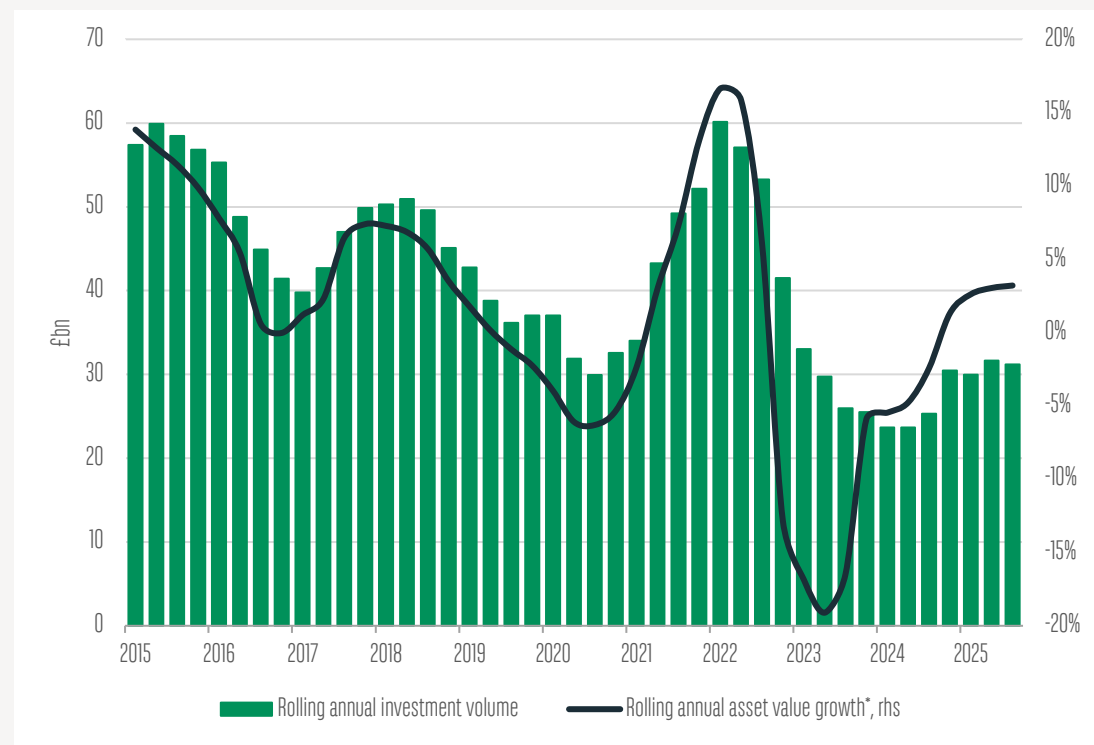
+3.2% AVERAGE ANNUAL CAPITAL VALUE GROWTH IN THE OFFICE, INDUSTRIAL AND RETAIL SECTORS IN Q3 2025.

3.6% 5-YEAR SONIA SWAP RATE, DOWN C. 20 BPS SINCE Q3 2025 AND DOWN C. 40 BPS SINCE 2024.

+21% CHANGE IN TOTAL ENGLAND INDUSTRIAL SECTOR RATEABLE VALUE BETWEEN 2023 & 2026

Source: Bank of England, BNP Paribas Real Estate, VOA, MSCI. Data as at EOD 27.11.2025.

FIGURE 4. UK commercial* real estate investment volume and capital value growth



Source: BNP Paribas Real Estate, MSCI. *office, retail and industrial sectors only. Capital value growth is a simple average of average growth in these sectors.

REAL ESTATE

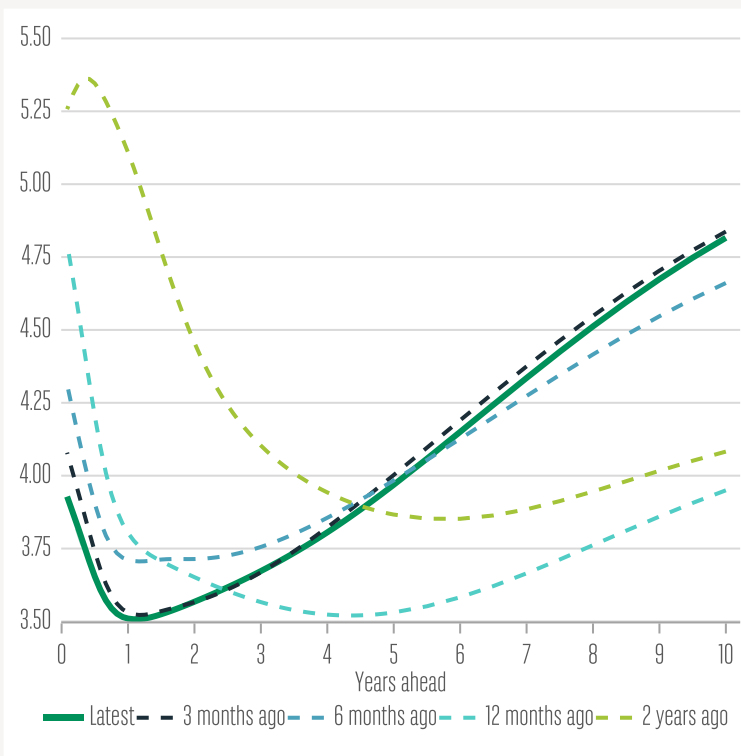


“For investors, the build-to-rent sector is likely to emerge as a standout winner from the Budget, in our view. Attractive long-term rental growth will likely be underpinned by more private landlords exiting the market, stretched mortgage affordability, and urban population growth.”

Business rates reform represents a significant structural change for commercial property, as highlighted by the draft 2026 ratings list and new multipliers for retail, hospitality, and large buildings. Industrial assets, which have seen strong rental growth since the pandemic, will experience some of the sharpest rate increases, and large warehouses with a rateable value over £500,000 could face double-digit rises. Retail, hospitality, and leisure will benefit from lower multipliers, but even so, rental growth since the last revaluation, and the phasing out of pandemic-era relief, means some of these businesses will still see their rates bills rise considerably over the next few years. Additionally, further increases in the National Minimum Wage and Living Wage, off the back of previous above-inflation rises, means salary growth remains a more consequential factor for many retail and logistics businesses’ occupational strategies.

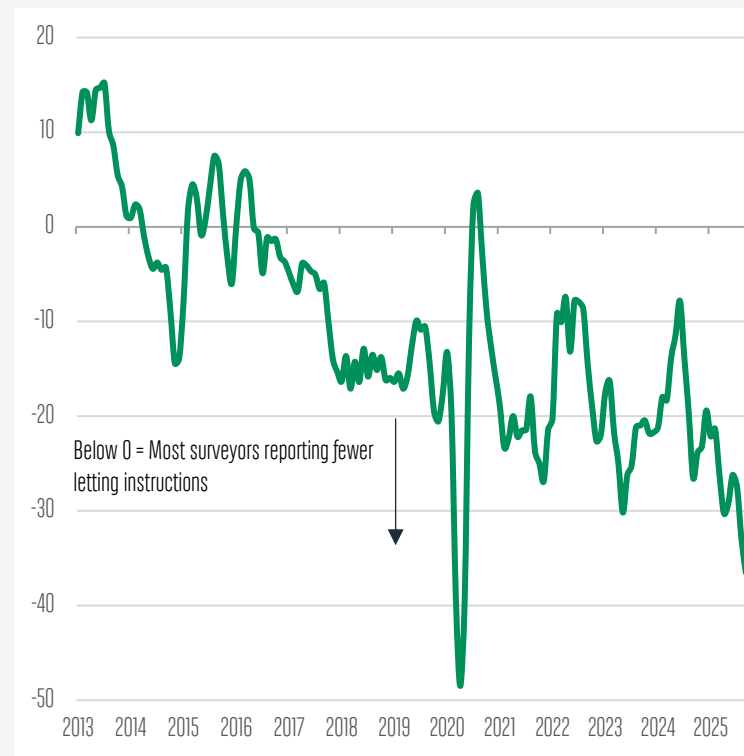
In our view, the institutional residential sector emerges as a clear winner from the Budget. Higher property income taxes for taxpayers are expected to exacerbate the current trend of landlords exiting the market (figure 6), driving greater rental demand towards build-to-rent and other professionally managed rental sectors. As a result, rental income growth should stay strong, underpinned by ongoing wage growth, tight mortgage affordability, and rising working-age populations in major cities.

FIGURE 5. Market expectations for the base rate implied by swap forwards (%)*



Source: Bank of England, Macrobond. Data as at EOD 27.11.2025. *Data shows trailing 3-month averages of the swap curve.

FIGURE 6. RICS Residential Survey – Landlord Instructions (net balance)



Source: RICS, Macrobond.



The Autumn Budget has reinforced the Government’s commitment to fiscal responsibility, which was welcomed by financial markets. For the housing market, it gave much-needed clarity, and the tax changes were [less severe than anticipated](#), providing reassurance to buyers and sellers waiting on the sidelines. However, although we are increasingly confident there will be two further base rate cuts before spring, the picture beyond that is frustratingly uncertain. The OBR’s outlook highlights the fragility of the economy and does not discount the risk that the government’s measures fail to ward off the need for another revenue-raising Budget. Until we see structural improvements to government finances, the UK’s current risk premium will remain priced in.

Real estate, however, did see some supportive measures. A permanent reduction in business rate multipliers for retail, leisure, and hospitality should help revive high streets and attract more investment into these sectors, though this comes with higher rates bills for large logistics warehouses, retail superstores and HQ offices. The government’s commitment improved planning capacity, faster project delivery, and crowding in private infrastructure investment is clear, but this must be matched by greater fiscal support, improved labour supply, and lower debt costs.

In summary, while the Budget has helped keep bond markets calm, deeper reforms are needed for lasting growth and lower interest rates. Even so, with pricing stable and leasing fundamentals positive for income growth, real estate investors will welcome a more stable environment in which to transact.



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