FUTURE

ECONOMIC & REAL ESTATE BRIEFING

NOVEMBER 2026 | UNITED KINGDOM

RESEARCH & INSIGHTS

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

ECONOMY

+1.0% OBR forecast of 2027 UK real GDP growth (BNP Paribas: 1.3%, Consensus forecasts: 1.1%).

4.6% BNP Paribas forecast for peak UK CPI inflation (Jan 27). CPI is forecast to average 3.5% over the whole of 2027.

+0.4% OBR forecast for average annual real household disposable growth between 2026/27 and 2031/32.

Source: OBR, BNP Paribas. Data as at EOD 28.10.2026.

"While the Autumn Budget has received a benign bond-market reaction so far, fiscal risk premia is unlikely to fade anytime soon. While announced stimulus was targeted and time-limited, the Budget deferred major questions hanging over the economy to next year's Spending Review."

Budget: sensible, not spectacular: The Autumn Budget achieved its main objective of keeping markets calm. By preserving £15bn of headroom (the minimum acceptable given market expectations of £15–20bn), and reiterating the fiscal rules, the Chancellor avoided adding materially to market concerns over borrowing. Meanwhile, there were no major tax rises, and the long-dated gilt issuance has been reduced materially, which helped contain the initial bond-market reaction. That said, fiscal risk premia is unlikely to fade anytime soon; while announced stimulus was targeted and much of it time-limited, the Budget deferred major questions hanging over the economy to next year's Spending Review.

Moreover, the accompanying Office for Budget Responsibility forecasts are notably cautious. The OBR expects GDP growth of around 1.25% in 2026 and just 1% in 2027, half a percentage point below its March forecast, as higher energy prices and interest rates weigh on demand. That caution provides a useful counterpoint to current data, which suggest the near-term economy could outperform those assumptions.

Growth: from resilient to 'strong'?: Indeed, the UK economy is no longer merely resilient. Recent data suggest growth could arguably be described as strong, with Q3 activity on course to exceed both our and consensus projections from just a few months ago.

Services are driving much of the strength, particularly the sectors that underpin office demand. The services economy grew at an annualised rate of 3.1% over the year to August, with legal and accounting activities expanding by 17.5%. Elements most exposed to the AI boom have also performed strongly (figure 1).

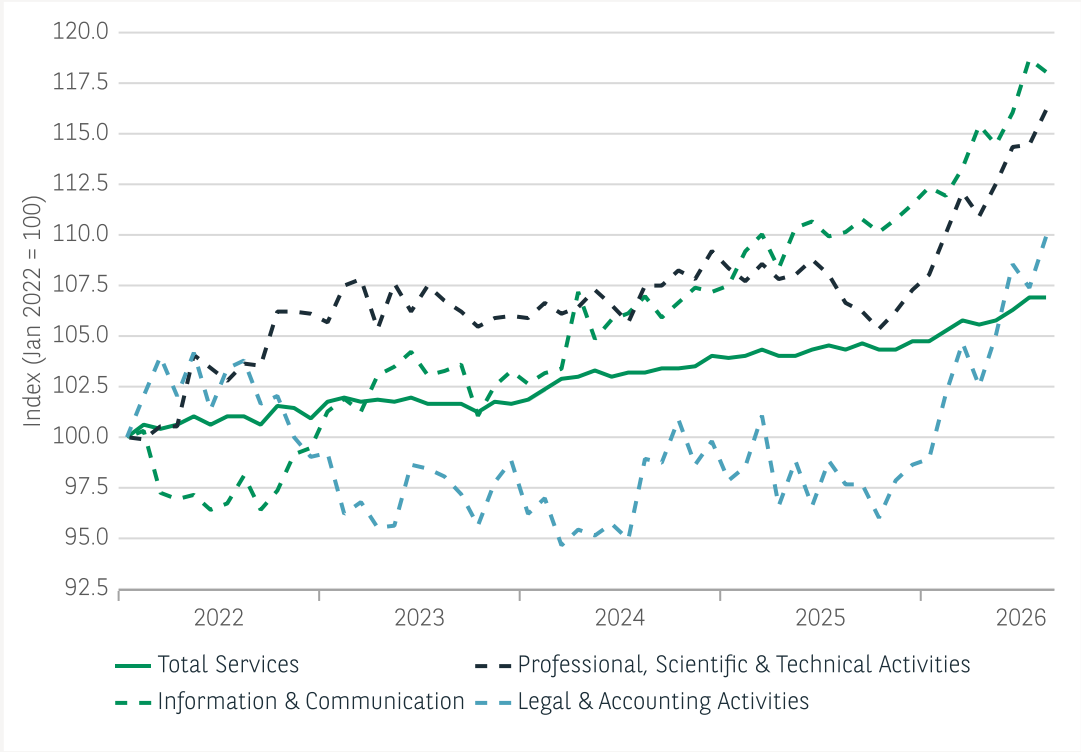
Consumer spending has also continued to rise as households draw down on savings boosted by higher returns on cash deposits and ISAs. This provides further near-term support to activity, although it also partly relies on households to continue to reduce their financial buffers.

Labour market finding its feet?: Recent data reinforces the view that the jobs market is stabilising, if not firing on all cylinders. Unemployment fell from 4.9% to 4.7% in August, although the Labour Force Survey remains volatile. Annual private sector regular pay growth, the Bank of England's preferred measure, edged up to 3.0%, while three-month annualised wage growth exceeded 4.7%, its highest for over a year.

September payroll estimates also showed growth and previous months were revised higher, while the PMI surveys suggest most employers are now increasing hiring for the first time in two years (figure 2).

Inflation increased rate hike risk: Meanwhile, inflation is now moving decisively upwards. Headline CPI increased from 3.1% in August to an 11-month high of 3.5% in September. Core inflation rose to 2.8%, services inflation reached 3.7% and the Bank of England's preferred measure of core services inflation increased to 3.9%.

FIGURE 1. UK services and select subsectors GVA



Source: ONS, Macrobond.

ECONOMY

"Strong growth, a stabilising labour market and accelerating inflation have largely removed the balancing act between activity and prices that has shaped monetary-policy debate this year. The conditions set out by Governor Andrew Bailey for tighter policy now appear to have been met."

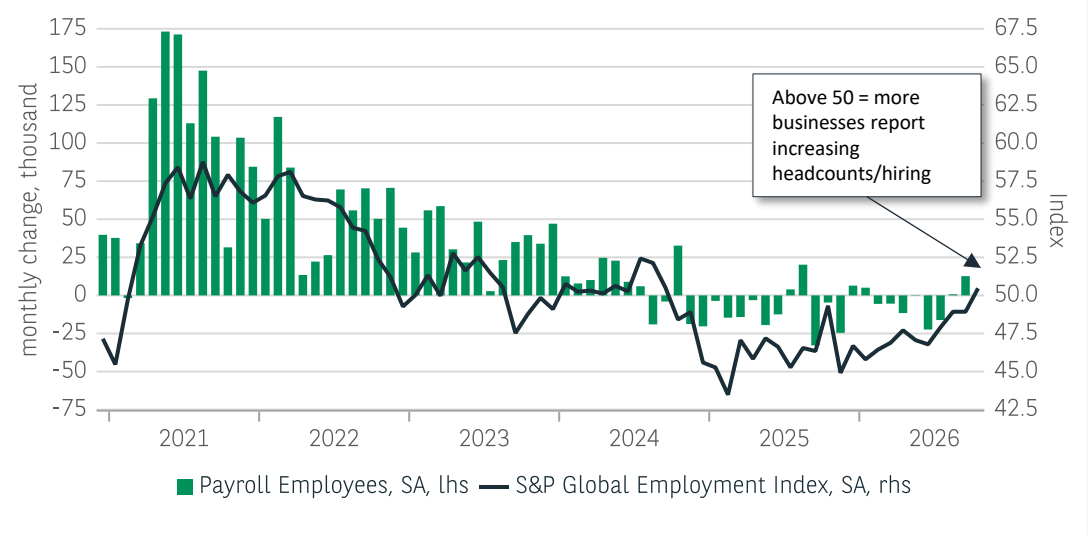
Energy and motor fuels were important drivers, but the broadening of domestically generated price pressures suggests the UK has passed the turning point in its inflation outlook. Inflation could reach approximately 4.6% around the turn of the year as higher energy and food costs combine with emerging second-round effects.

Strong growth, a stabilising labour market and accelerating inflation have largely removed the balancing act between activity and prices that has shaped monetary-policy debate this year. The conditions set out by Governor Andrew Bailey for tighter policy now appear to have been met, making a reluctant increase in Bank Rate at the forthcoming November meeting highly likely.

Households facing a squeeze: However, one increase does not necessarily mark the start of a sustained tightening cycle. Higher inflation, refinancing costs and rental growth will squeeze household incomes, while the Budget's £100-per-household energy support only partly offsets the incoming January price-cap increase.

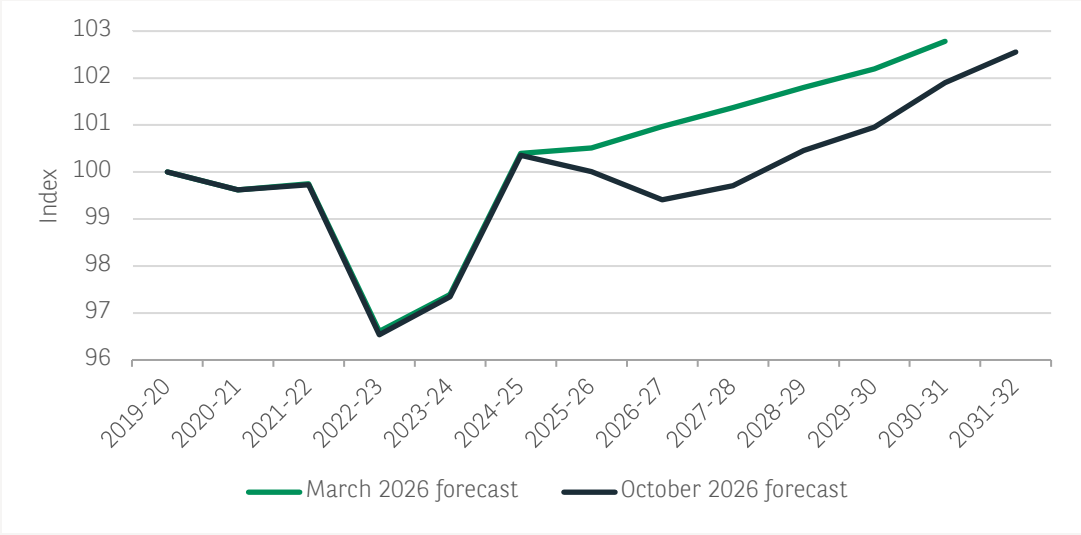
The OBR expects real household disposable income per person to fall near term and remain below its March forecast by 2030-31, only around 2% above its pre-pandemic level (figure 3). This squeeze should eventually slow consumption and domestically-driven inflation. A second rate increase in early 2027 cannot be ruled out, but markets may underestimate how quickly weaker household finances and higher borrowing costs could constrain demand.

FIGURE 2. Payroll employee growth and PMI employment index



Source: ONS, S&P Global, Macrobond. A PMI reading of above 50 means more businesses report increasing headcounts/hiring than cutting staff.

FIGURE 3. OBR real household disposable income (RHDI) per person forecasts



Source: OBR, 28.10.2026.

REAL ESTATE

6.3% Average BBB-rated GBP corporate bond yield to maturity over Q3 2026. (Q3 2025: 5.9%).

8.5% Average annual rental growth across the Big 6 regional office markets in Q3 2026 – a record high.

£32.3bn UK CRE investment volume over Q1-3 2026, 9% down on Q1-3 2025.

Source: BNP Paribas Real Estate, MSCI, Macrobond, Data as at EOD 28.10.2026.

"Strong income fundamentals have not insulated property from the repricing of risk. BBB-rated sterling corporate bonds now yield more than 6%, eroding the relative-value advantage of prime commercial property and raising investors' required returns."

Economy supports income growth: The Autumn Budget comes at a critical point for UK commercial real estate, with two opposing forces increasingly shaping performance. Economic resilience is supporting occupier demand and rental growth, but inflation, fiscal uncertainty and geopolitical risk are keeping borrowing costs elevated and intensifying competition from other income-producing assets.

The Q3 data shows occupational markets remain stronger than economic narratives alone convey. Central London office take-up for the first nine months of the year was in line with its ten-year average and the vacancy rate fell to 8.3%, returning to pre-pandemic levels and now below the Big Six German cities' average (figure 4). At the prime end, Grade A vacancy is just 1.3% and 2.4% in the West End and City respectively. Prime rents have consequently increased by 5.9% and 8.6% y/y in the same markets.

The pattern extends beyond London. Grade A vacancy in the Big Ten regional office markets fell to just 2.1%, while the Big Six cities saw record average annual rental growth of 8.5%. In Logistics, new supply is falling and 2026 completions are expected to remain 32% below their long-term average, while average prime rents grew 2.5% y/y, reinforcing the rental-growth outlook for well-located assets.

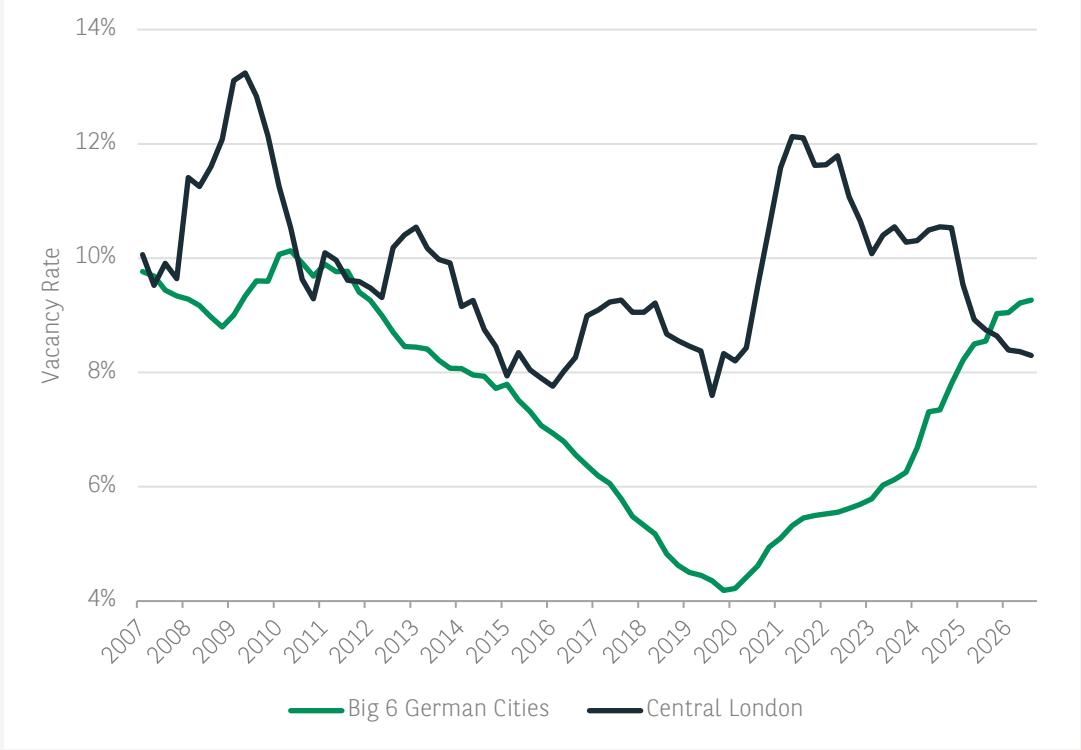
Higher required returns: However, strong income fundamentals have not insulated property from the repricing of risk. BBB-rated sterling corporate bonds now yield more than 6%, eroding the relative-value advantage of prime commercial property and raising investors' required returns. This is reflected in valuation data; rolling three-month all-property capital growth has slipped into negative territory for the first time since early-2024. This comes despite average rental growth remaining above long-run averages, leaving yield decompression as the main driver (figure 5).

In turn, investment activity remains suppressed compared to last year. Activity levels vary at sector level, but overall UK investment, which reached £32.3bn over Q1-3, is running c. 9% down on last year and c. 23% below the ten-year average. Moreover, actual deal count on a year-to-date basis is back down at 2010-12 levels, reinforcing the narrative that institutional investors are focusing on large platform-like transactions to achieve scale and value.

Central London remains an outlier, with Q3 office investment reaching £2.6 billion - 143% higher than a year earlier and 16% above its ten-year Q3 average. Year-to-date volume increased by 31% to £6.3 billion, while deal count was only 3% below trend. Even so, pricing is softening, with City prime yields up by 50 bps since the beginning of the year.

Relief, Not Resolution: Amid a difficult rates backdrop, the Autumn Budget's small scale, and lack of significant announcements, was welcome. Indeed, there were no major changes to capital gains tax or mansion-tax thresholds. Moreover, despite rumours, there were no changes to business rates on large warehouses and offices.

FIGURE 4. Central London and German cities office vacancy rates



Source: BNP Paribas Real Estate.

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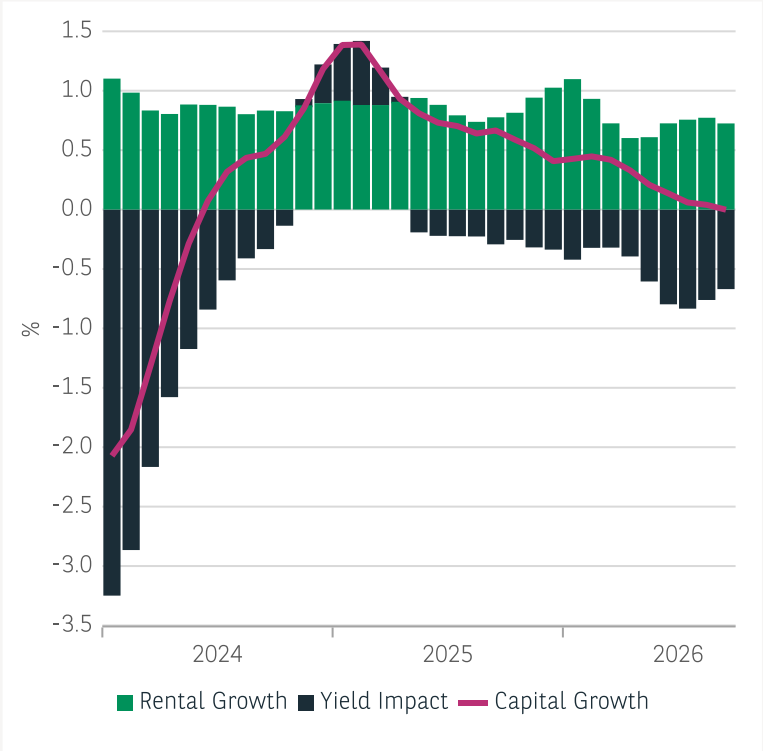
"The Chancellor's deferring of major policy reform means investors are unlikely to reprice UK-specific policy risk anytime soon. Until investors have greater clarity over fiscal credibility and risk-free rates, commercial real estate capital is likely to remain cautious and selective."

There were some helpful announcements. New funding commitments and private capital mobilisation plans are encouraging, including the Innovative Defence Financing Taskforce and £20.4bn of new funding for the National Wealth Fund and British Business Bank. The Budget also advances devolution, with Mayors receiving a share of business rates from April 2027, new Business Rates Retention Zones and seed funding for "Good Growth Funds", backed by a £1.5bn borrowing facility from 2028. By giving local leaders greater ability to capture value generated by development and recycle it into growth priorities, the reforms could strengthen the investment case for regeneration, regional offices and infrastructure-led opportunities.

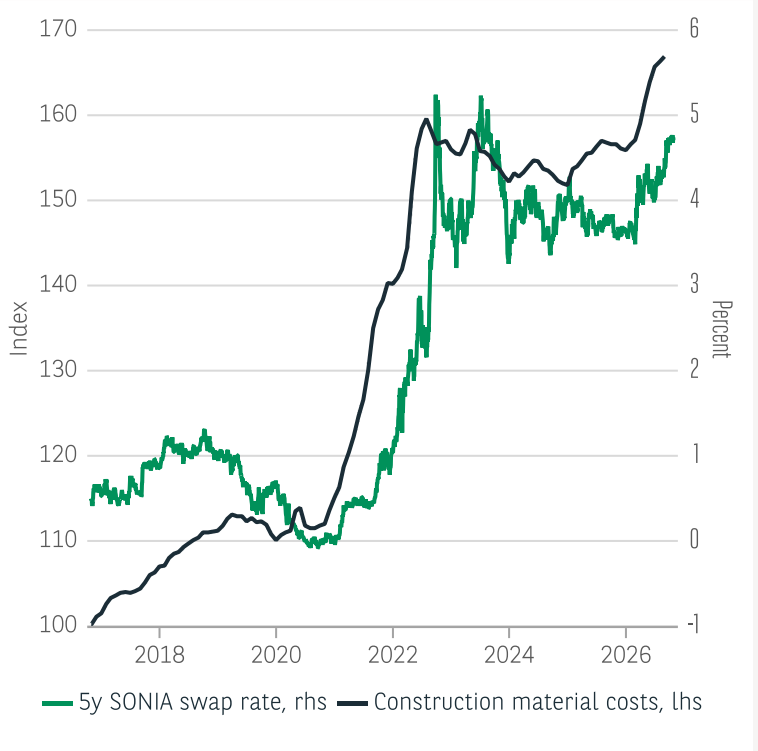
The benign gilt-market reaction so far suggests event risk has been contained. However, this Budget does little to address worsening development viability. Annual construction materials inflation reached 6.3% in August, and elevated swap rates continue to feed into development finance (figure 6), leaving many otherwise viable projects unable to proceed, unless they are prime sites and are fully pre-let. More importantly, the deferring of major policy reform and spending plans to next year means investors are unlikely to reprice UK-specific policy risk anytime soon. Until investors have greater clarity over long-term implications for borrowing, bond supply, and risk-free rates, commercial real estate capital is likely to remain cautious and selective.

FIGURE 5. Components of UK all-property capital growth



Source: MSCI UK Monthly Property Index – September 2026.

FIGURE 6. UK construction and debt costs



Source: UK Government, Bank of England, Macrobond.

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