REVIEW

UK LIVING MARKET

UPDATE Q3 2026

RESEARCH & INSIGHTS

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

""The impact of higher energy costs and mortgage rates means growth is likely to have slowed since Q2. Even so, the economy is clearly in better shape than feared, with some segments thriving despite global headwinds."

Charlie Tattersall
Capital Markets Research

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MACRO OVERVIEW

The latest figures from the ONS show that UK GDP increased 0.1% in August, above market expectations. The OECD has upgraded its 2026 UK growth forecasts from 0.9% to 1.1%. Over H1 2026, the UK grew at an annualised rate of 2.4%, comfortably above average, and comparing favourably with US and German growth of 1.8% and 1.6%, respectively.

Growth is increasingly concentrated in long-term investment themes rather than consumer demand. Business investment was stronger than expected, largely driven by certain ICT segments and investment in non-residential buildings. AI and infrastructure has been a key support to manufacturing activity. Recent survey evidence points to rising orders and work backlogs, and more hiring to meet demand.

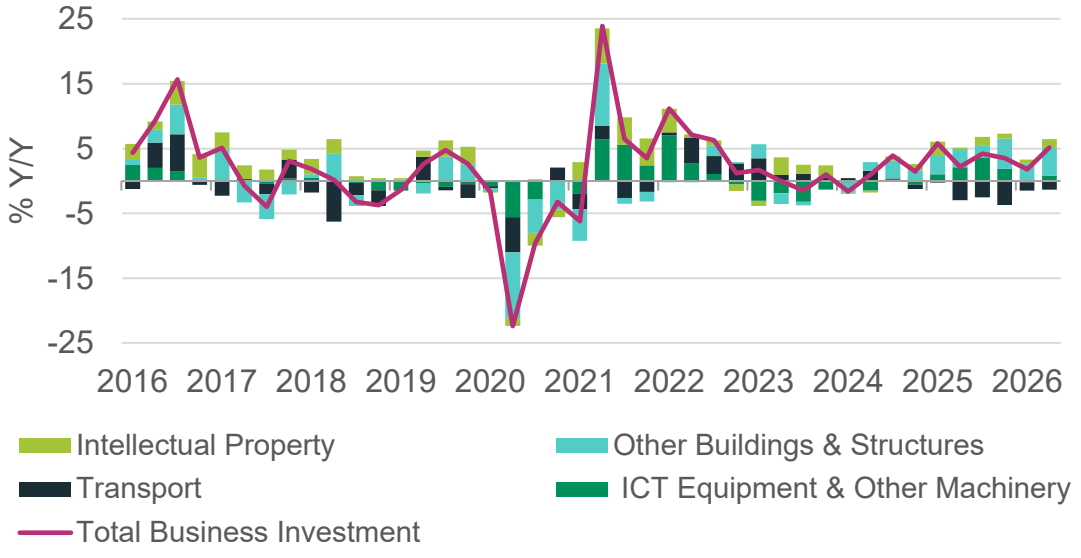
The economy is clearly in better shape than feared, with some segments thriving despite global headwinds. However, this strength of demand has inflationary implications, and there are increasing signs that the energy price shock is moving into the wider economy. Utilities and fuel prices remain the main driver of headline inflation, which rose to 3.5% in September. Business surveys and producer price data continue to show rising wholesale costs and a growing willingness among some firms to pass these through to customers. Meanwhile, annualised 3-month wage growth in the services sector in August has rebounded strongly since March's six-year low of 1.8% to 5.2%. This is concerning evidence of inflation expectations becoming embedded in wage settlements.

Energy prices remain the critical indicator to watch. Any concrete progress in reopening the Strait of Hormuz could lead to a sharp correction in wholesale markets. However, much of the inflationary impact is already locked in because of Ofgem's price cap mechanism. The latest evidence continues to support the view that CPI is heading above 4% by early next year and will remain slightly above 2% at the end of 2027.

September's MPC meeting delivered no change in Bank Rate, but the tone of communication was noticeably more hawkish. The key shift was that policymakers increasingly appear concerned about the possibility of inflation expectations becoming embedded before second-round effects are fully visible in wage demands and consumer prices. Importantly however, MPC members have pushed back on current swaps market pricing of multiple hikes. The most likely outcome remains a single hike in November followed by a resumption of cuts in late 2027. The Bank of England increasingly looks willing to act to prevent a wage-price feedback loop from emerging, but it remains unconvinced that a prolonged tightening cycle will be required. Nevertheless, if energy prices remain high through year-end, inflation expectations rise and second-round effects prove stronger than expected, another hike in early 2027 cannot be ruled out.

In the Living sectors, the upcoming Autumn Budget should provide detail on the new 'Your First Home' scheme, announced in Q3, designed to help first-time buyers. Moreover, eyes will be on the proposed revenue retention changes for local authorities and whether this will aide regional planning capacity and delivery. However, with construction cost inflation at a three-year high, and low overall levels of housing delivery, and brick and concrete deliveries falling to their lowest level since 2020 in July, a recovery is likely to require relief from energy prices, build costs or interest rates.

Contributions to UK business investment growth

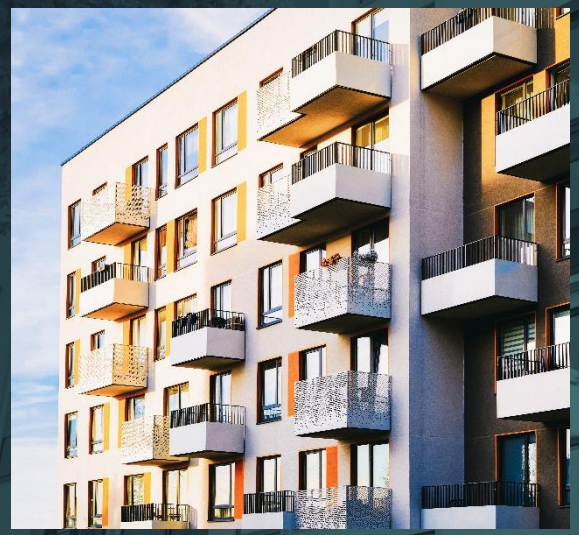


Source: ONS, Macrobond

5.3

Enquiries per rental home

Source: Zoopla Rental Market Report Sept 2026



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BUILD TO RENT AND SINGLE-FAMILY RENTAL

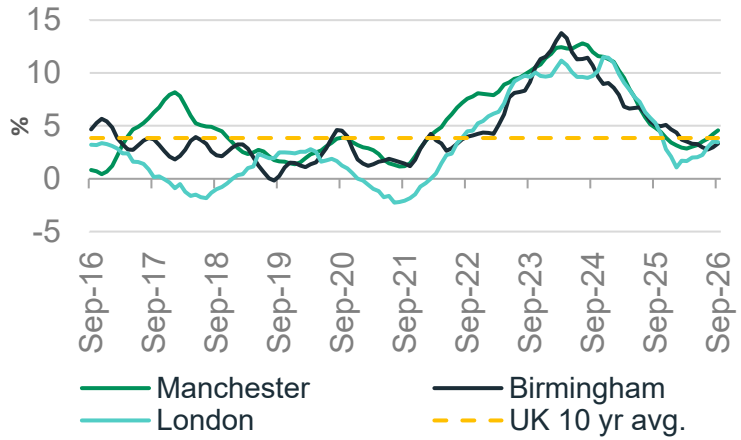
The UK Build to Rent (BTR) and Single-Family Rental (SFR) sectors continue to benefit from a structurally imbalanced housing market. Demand remains underpinned by affordability constraints that has made home ownership challenging. This has been exacerbated over Q3 2026 against a backdrop of higher mortgage rates which has kept would-be homeowners in the rental market. Quoted 2-year fixed, 85% LTV, mortgage rates were at 5.26% at the end of September 2026, according to the Bank of England, compared to 4.32% a year earlier. This has resulted in a renewed tick up demand for homes to rent with Zoopla noting an average of 5.3 enquiries per rental home.

Meanwhile, supply remains constrained, a consequence of elevated construction costs, high borrowing costs and development viability challenges, and this combination has seen another increase in rents across the market. UK average annual rental growth was 3.8% in September 2026; unchanged from a month earlier but the highest rate of rental growth in 2026, to date.

Over Q3 2026 there were several projects submitted for planning and approved in both BTR, SFR and Coliving highlighting that the market continues to expand as investors navigate the challenging development backdrop but recognize the opportunities for secure income and potential rental growth.

Looking ahead, however, rental growth is expected to remain at a moderate level due to affordability constraints and the rules under the Renters' Rights Act regarding rental uplifts.

Average annual rental growth



Source: ONS

INVESTMENT ACTIVITY

The SFR sector accounted for the greater share of investment activity in Q3 2026 reflecting both the investment and development environment. Investors are increasingly favouring portfolios of family homes, buying off housebuilders, as a route to build scale at pace, at a time when viability and planning has made the delivery of urban BTR challenging.

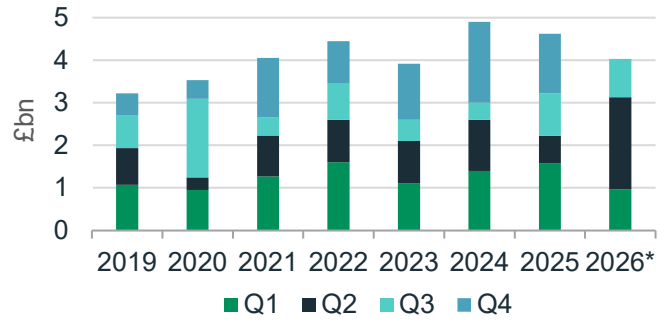
In July, CBRE IM in partnership with Moda Living, acquired a portfolio from Bellway across three sites. This new entrant into the SFR market signals a shift and confidence from institutional investors towards this sector, recognising the shortfalls in housing supply and the opportunity to acquire income-producing assets.

In one of the largest SFR transaction so far this year, Border to Coast Pension Partnership, a local government pension pool (LGPS), acquired 866 homes from Blackstone's Leaf Living for c.£400m in July 2026. The portfolio comprised of assets across 12 sites in the South-East of England.

Similarly, Lloyds Living acquired 980 homes across 14 sites from Barratt Redrow, also in July 2026.

In BTR, Royal London Asset Management agreed a forward funding of Bicycle Works in Wolverhampton and Vita Group acquired Greater Manchester Pension Fund's 50% share of Uhaus, Circle Square in Manchester for c.£247m.

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



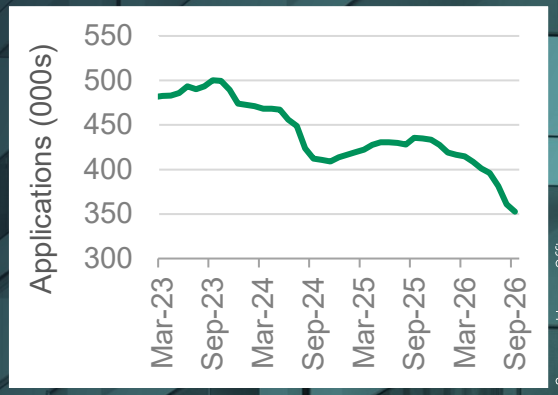
Source: BNP Paribas Real Estate, MSCI
*provisional

41%

Proportion of all accepted applicants by higher tariff providers

Source: UCAS 28 days after results day

Sponsored Study Visa Applications, rolling 12 months



Source: Home Office

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STUDENT HOUSING

The UK purpose-built student accommodation (PBSA) sector is increasingly characterised by a divergence in demand between higher and lower tariff institutions. and an uneven balance between supply and demand, varying across individual cities.

Student numbers are benefitting from a higher proportion of 18-year-olds in the population with a 2.2% increase in UK 18-year-old accepted applicants for the 2026/2027 academic cycle. There was also a 3% increase in international accepted applicants, reported by UCAS 28 days after results day. Of note was the 13% increase in accepted applicants from China. However international demand from postgraduates has weakened considerably with sponsored study visa applications down -19.1% in the year to September 2026 compared to September 2025. This reflects a change in the visa rules, in particular the Graduate Route (post-study work visa) which is reducing from 24 months to 18 months from January 2027.

Meanwhile, the market remains divided with higher-tariff institutions accounting for 41% of accepted applicants, an increase from 39% a year ago, whilst lower-tariff institutions accounted for 27%, a decline from 29% a year ago. Both domestic and international students are increasingly looking for value for money from their degree, which has grown in importance against increasing tuition fees, and the challenging job market. Similarly, UCAS also noted an increasing number of UK students intending to live at home whilst at university. This has increased to 39.3% from 38.7% last year and is likely to reflect both the increase in accommodation and tuition fees.

On the supply side, development remains constrained by planning and viability challenges however not every city is under-supplied. This, combined with the divergence in demand trends has led to an increasingly tailored approach by PBSA developers with the development pipeline focussed on a handful of cities.

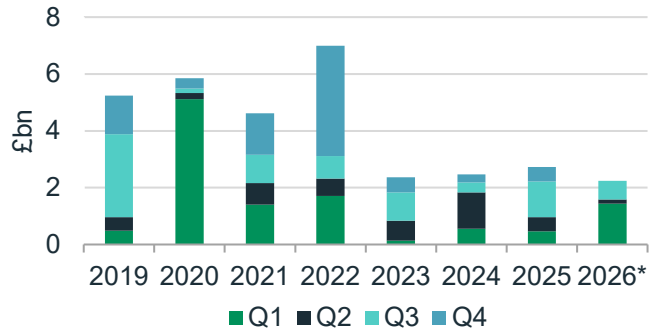
INVESTMENT ACTIVITY

The diverging demand picture in PBSA in addition to varying levels of supply across UK cities has resulted in a far more targeted strategy from investors. This continues to be reflected by both the relatively subdued volume of transactions in the market as well as the location of deals that have completed.

MCR Property were the most active investor in UK PBSA in Q3 2026 acquiring several assets in Sheffield from Unite Students, and in Manchester and Leeds from Njoy Student Living. This takes their portfolio, under their Flow Student platform, to over 8,000 beds nationally.

Elsewhere, Partners Group and Aboria Capital acquired a five-asset portfolio from HSBC Asset Management for c.£165m. The value-add assets are all located within Russell Group cities and, the partnership intends to undertake a refurbishment programme.

Purpose Built Student Accommodation Investment Volumes



BNP Paribas Real Estate, MSCI
*provisional

Q3 2026

KEY LIVING SECTOR ACTIVITY

INVESTOR	LOCATION	DETAILS	SECTOR	DATE
MCR Property	Sheffield	Acquisition of three purpose-built student accommodation from Unite Students; 1,163 beds	Student	Aug-26
Partners Group, Aboria Capital	National	Acquisition of a five-asset purpose-built student accommodation portfolio from HSBC Asset Management for c.£165m; 1,570 beds	Student	Sept-26
MCR Property	Manchester / Leeds	Acquisition of a purpose-built student accommodation portfolio from Njoy Student Living; 800 beds	Student	Sept-26
Far East Orchard	London	Acquisition of freehold development site with plans to convert it into purpose-built student accommodation, for c.£60m; 444 beds	Student	Sept-26
Royal London Asset Management	Wolverhampton	Forward-funding of Bicycle Works, a build-to-rent scheme part of the Smithgate masterplan; 331 homes	BTR	Aug-26
Vita Group	Manchester	Acquisition of Greater Manchester Pension Fund's 50% interest in Uhaus, Circle Square for c.£247m; 683 homes	BTR	Sep-26
CBRE IM	South East	Acquisition of a single-family rental home portfolio from Bellway across three sites in its new partnership with Moda Living; 222 homes	SFR	Jul-26
Greystar	Cambridgeshire	Acquisition of a development site at Waterbeach, Cambridgeshire from Urban&Civic; 387 homes	SFR	Jul-26
Long Harbour	East Midlands	Forward-funding of single-family rental homes in Derby and Desborough; 175 homes	SFR	Jul-26
Lloyds Living	National	Acquisition of homes across 14 developments from Barratt Redrow; 980 homes	SFR	Jul-26
Royal London Asset Management	Manchester	Forward-funding of single-family rental homes on Riverpark Road, Manchester; 284 homes	SFR	Jul-26
Border to Coast Pensions Partnerships	South of England	Acquisition of a single-family rental homes portfolio from Leaf Living for c. £400m; 866 homes	SFR	Aug-26
DFI	London	Forward-funding of the Nineyards coliving scheme in Kingston; 200 homes	Coliving	Aug-26
CareTrust REIT	National	Acquisition of a 16-asset portfolio of care homes across the UK for c.£167m; 1,307 beds	Care Homes	Aug-26
Aedifica	National	Acquisition of 1 trading purpose-built care home and 2 forward purchases for c.£46.5m; 201 beds	Care Homes	Jul-26

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CONTACTS

RESEARCH

Rebecca SHAFRAN
Head of Research
07818 539 195
rebecca.shafran@realestate.bnpparibas

Charlie TATTERSALL
Capital Markets Research
Tel.: +44 (0)7818 539188
charlie.tattersall@realestate.bnpparibas

RESIDENTIALCAPITAL MARKETS

Simon WILLIAMS
Executive Director
07808 479 304
simon-d.williams@realestate.bnpparibas

Gavin HENDRY
Director
07876 595 734
gavin.hendry@realestate.bnpparibas

Nick ROBINSON
Senior Associate Director
07557 288 213
nick.robinson@realestate.bnpparibas

Max MARSTON
Senior Surveyor
07557 288 213
max.marston@realestate.bnpparibas

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BNP PARIBAS REAL ESTATE

BNP Paribas Real Estate UK
10 Harewood Avenue
London NW1 6AA
Tel.: + 44 (0) 207 338 4000

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Locations

EUROPE

FRANCE
Headquarters
50, cours de l'Ile Seguin
CS 50280
92650 Boulogne-Billancourt cedex
Tel.: +33 1 55 65 20 04

GERMANY
Goetheplatz 4
60311 Frankfurt am Main
Tel.: +49 69 29 89 90

UNITED KINGDOM
10 Harewood Avenue
London NW1 6AA
Tel.: +44 20 7338 4000

BELGIUM
Avenue Louise 235
1050 Brussels
Tel.: +32 2 290 59 59

SPAIN
C/ Emilio Vargas, 4
28043 Madrid
Tel.: +34 91 454 96 00

IRELAND
57 Adelaide Road,
Dublin 2
Tel.: +353 1 66 11 233

ITALY
Piazza Lina Bo Bardi, 3
20124 Milano
Tel.: +39 02 58 33 141

LUXEMBOURG
Kronos building
10, rue Edward-Steichen
2540 Luxembourg
Tel.: +352 34 94 84

Investment Management
Tel.: +352 26 06 06

NETHERLANDS
Antonio Vivaldistraat 54
1083 HP Amsterdam
Tel.: +31 20 305 97 20

POLAND
Grzybowska 78,
00-844 Warsaw
Tel.: +48 22 653 44 00

PORTUGAL
Avenida da República, 90 Piso 1,
Fracção 1
1600-206 Lisboa
Tel.: +35 1 939 911 125

MIDDLE EAST / ASIA

DUBAI
Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubaï
Tel.: +971 44 248 277

HONG KONG, SAR CHINA
63/F, Two International
Finance Centre
8 Finance Street, Central,
Hong Kong, SAR China
Tel.: +852 2909 8888

SINGAPORE
20 Collyer Quay, #17-04
Singapore 049319
Tel.: +65 681 982 82

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Fax: +33 (0)1 55 65 20 00 - www.realestate.bnpparibas.com. BNP Paribas Real Estate is part of the BNP PARIBAS Group (art. 4.1 of the French law 70-9, 02/01/70)

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