18TH MARCH 2026

Picking housing and commercial property winners and losers

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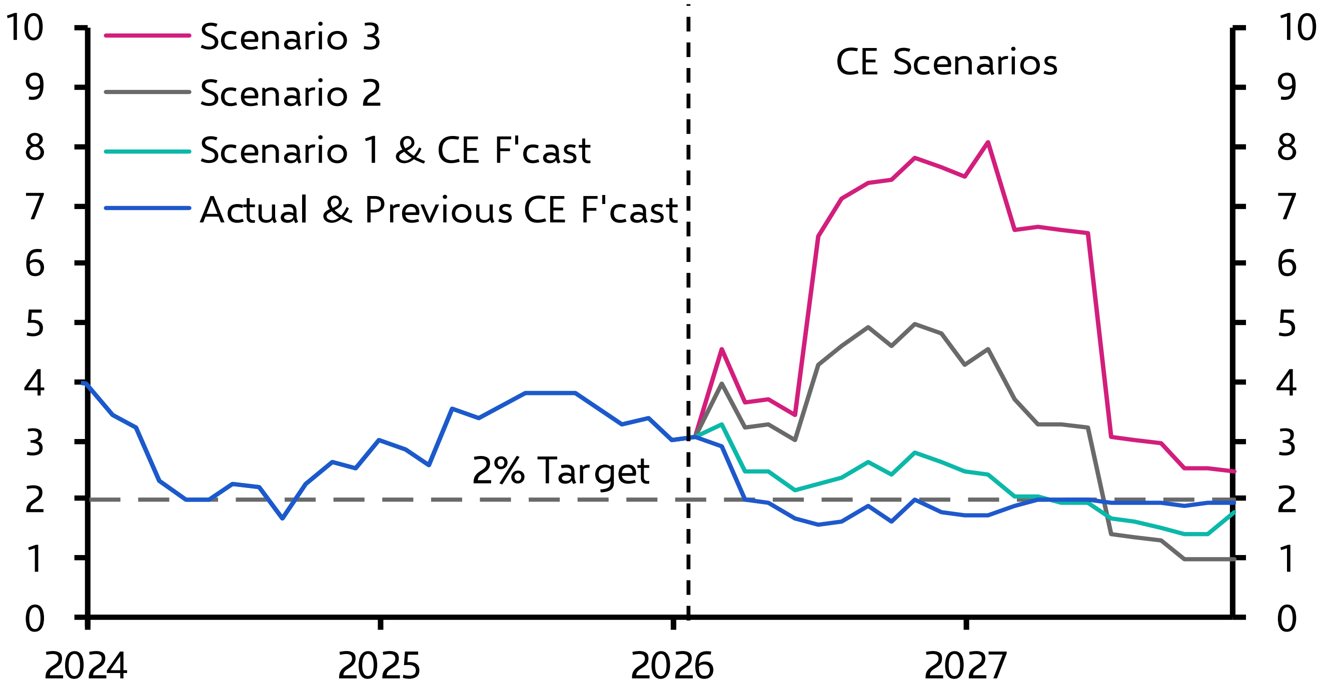
CAPITAL ECONOMICS

Agenda

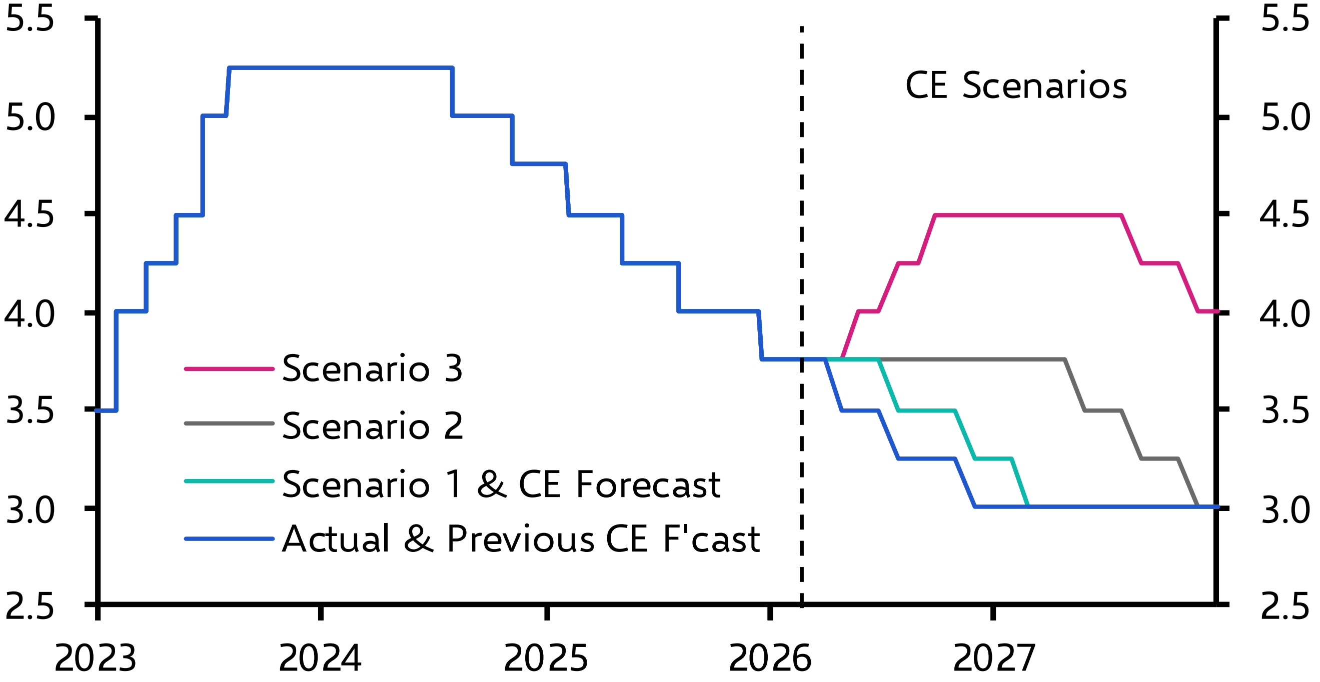
- Presentation (15 mins):
  - Setting the scene - How the UK economic landscape has changed.
  - How could the Middle East conflict influence the UK housing market and its winners and losers?
  - Which commercial property sectors will outperform?
- Discussion (40 mins).
- Demonstration of how the CE Platform can help you (5 mins).

CE CPI Inflation Scenarios (%)



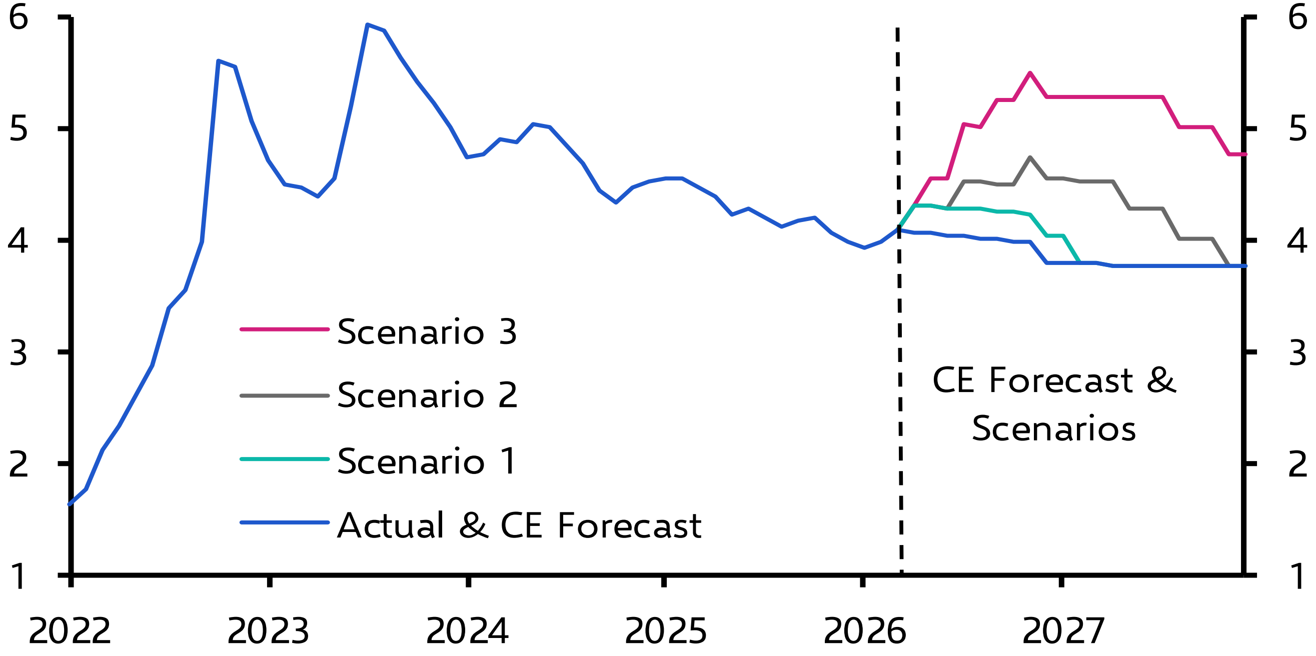
Sources: LSEG Data and Analytics, Capital Economics

CE Bank Rate Scenarios (%)



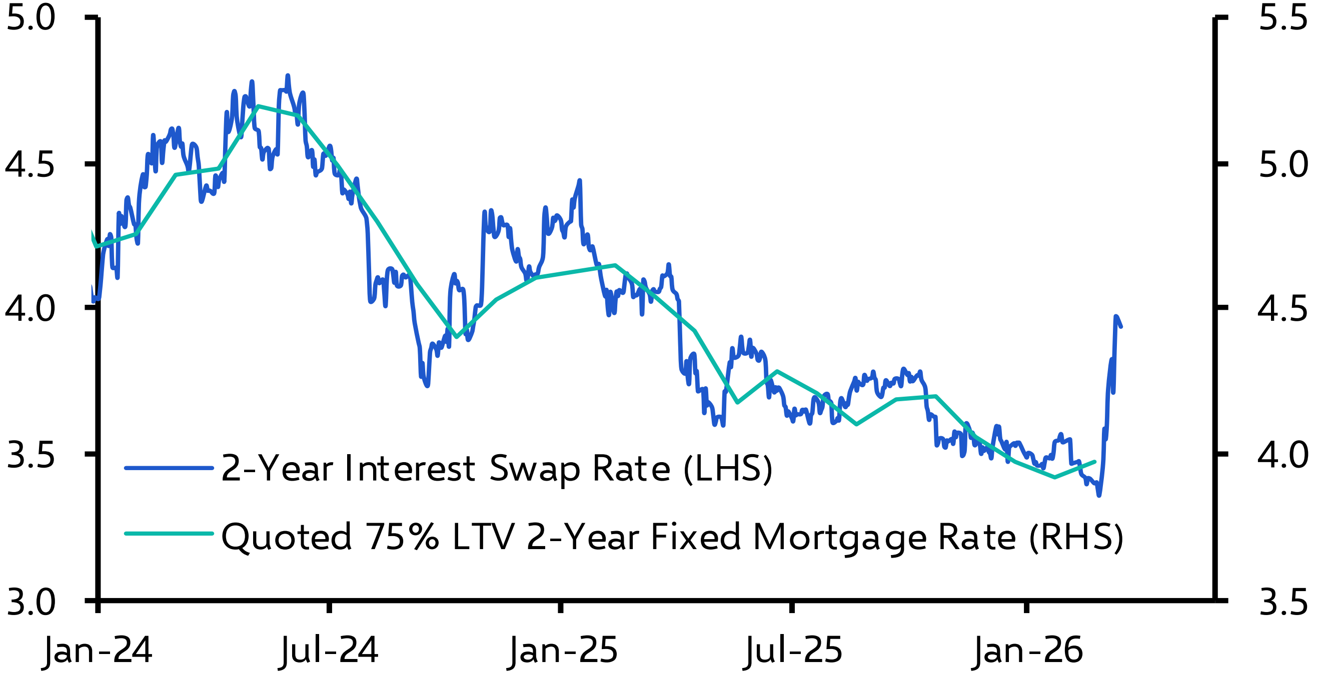
Sources: LSEG Data and Analytics, Capital Economics

CE Composite Average Quoted Mortgage Rate Scenarios (%)



Sources: LSEG Data and Analytics, Capital Economics

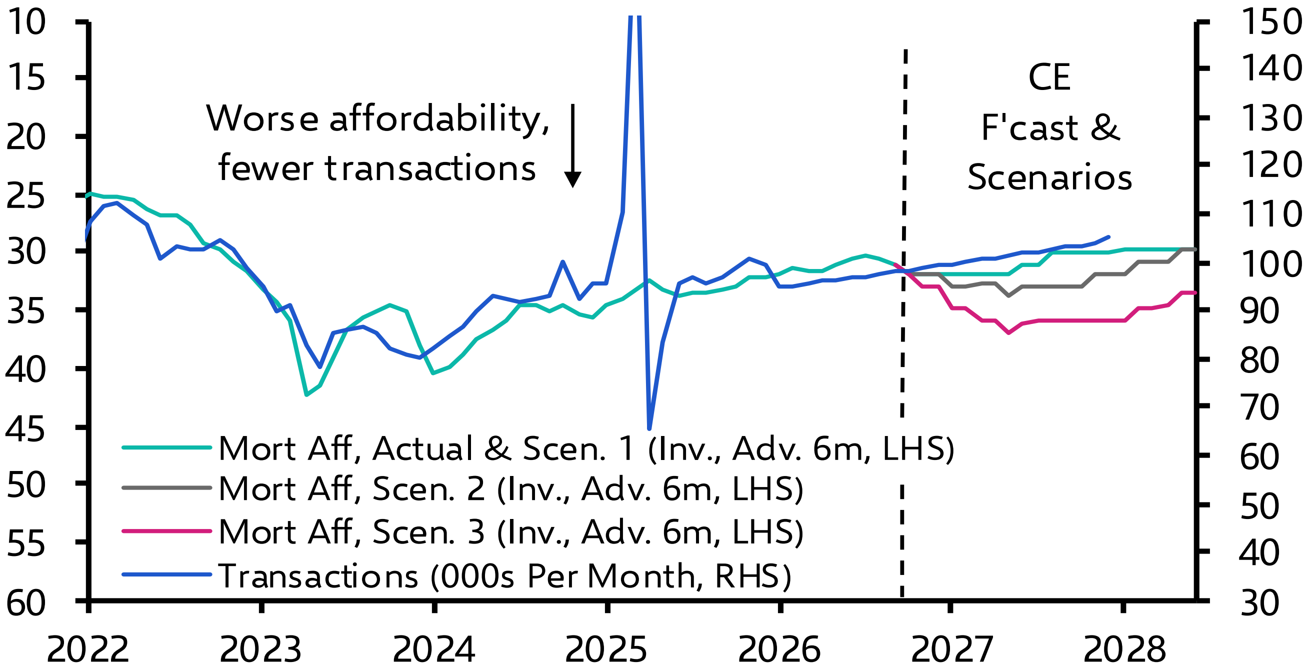
2-Year Swap Rate & 2-Year Mortgage Rate (%)



Sources: LSEG Data and Analytics, Capital Economics

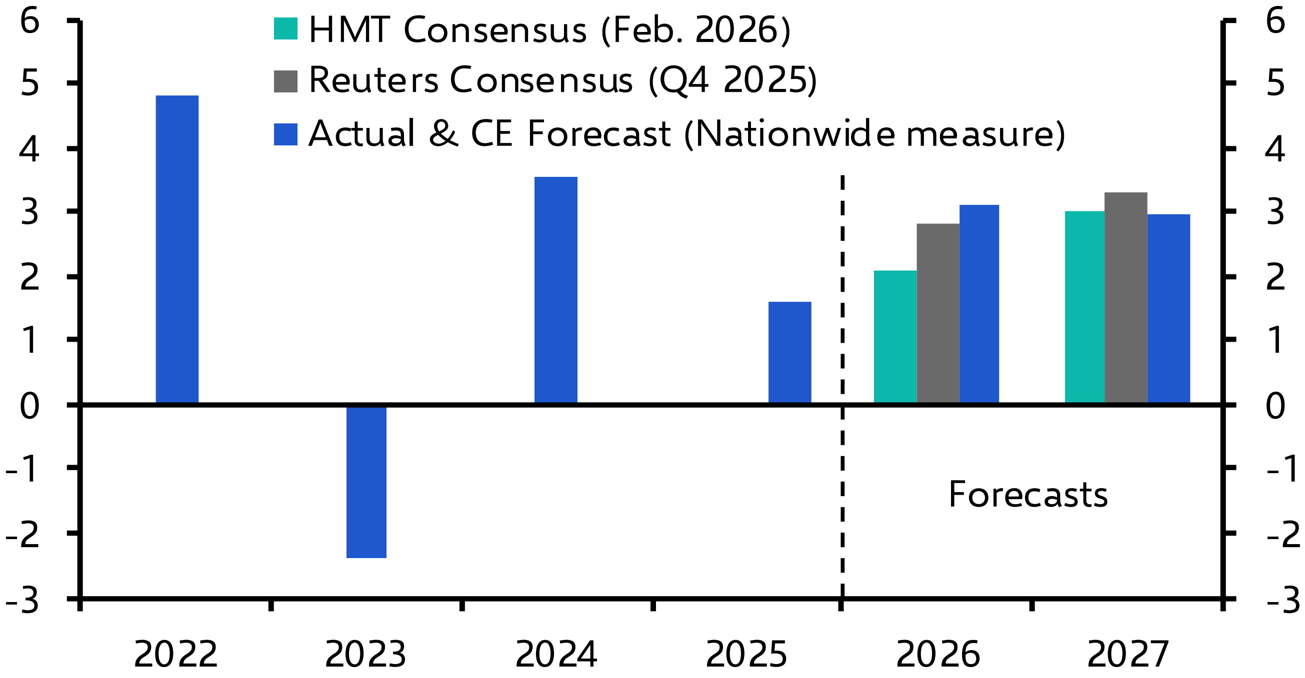
Mortgage Affordability* & Housing Transactions

(*Average Mortgage Payment As a % of Median Income)



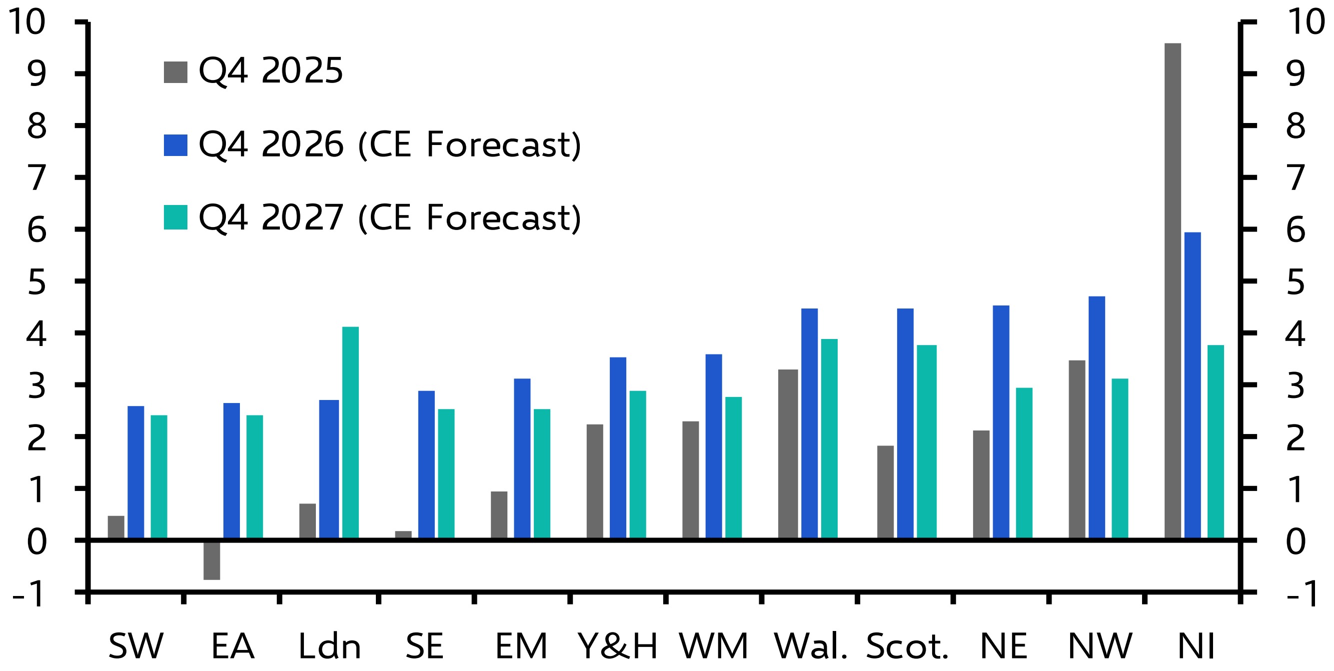
Sources: LSEG Data and Analytics, ONS, Capital Economics

House Prices (Q4, %y/y)



Sources: LSEG Data and Analytics, HM Treasury, Capital Economics

Nationwide House Prices (%y/y)



Sources: LSEG Data and Analytics, Capital Economics

How will the conflict affect commercial property?

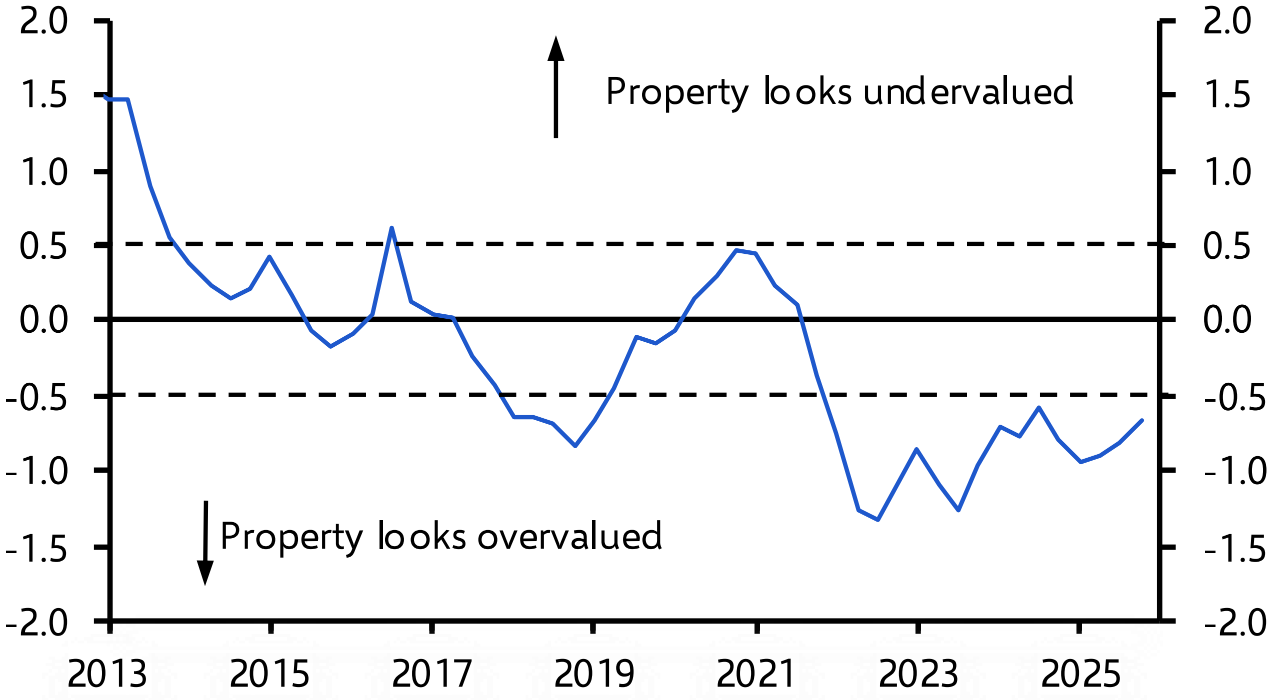
- The most energy-intensive sectors are vulnerable to higher energy prices, especially manufacturers, accom. providers, recreation & culture, retail.

- Will put margins under more pressure in sectors already struggling from increased NICs; could cause more job losses and closures in hospitality and retail.

- The potential yield impact poses a more substantial risk than rental growth.

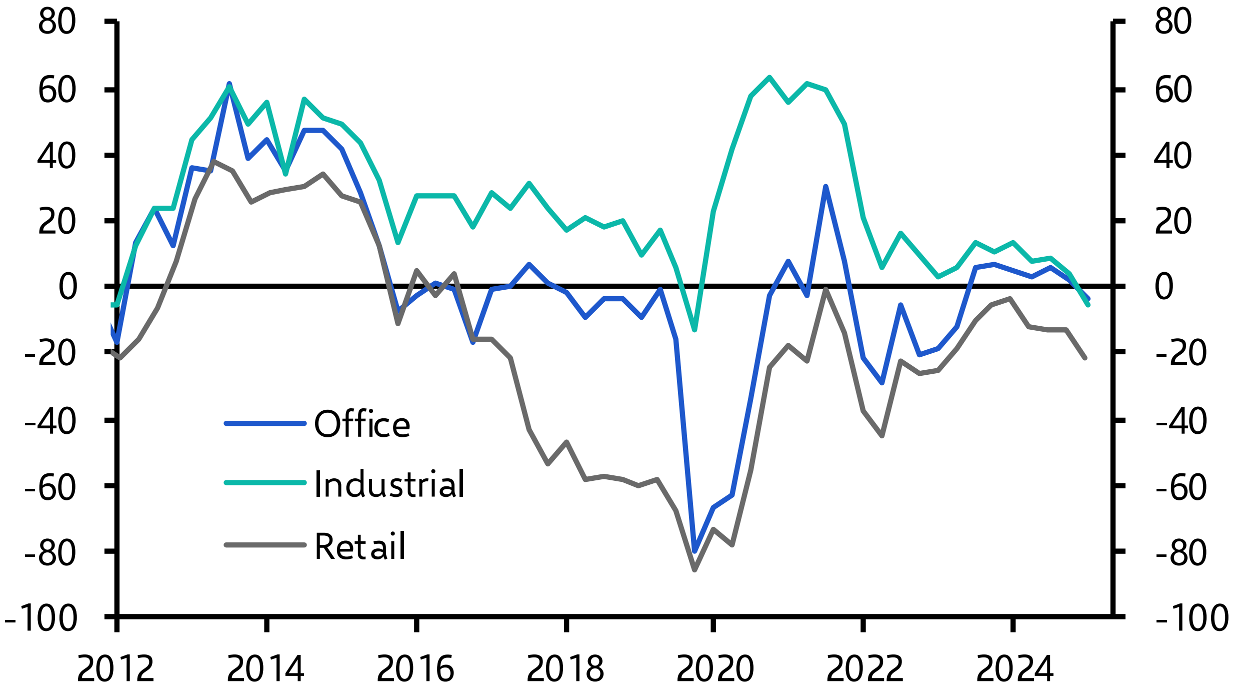
- Investors would probably look through a short-term spike in gilt yields. But if prolonged, already-narrow yield gaps pose an upside risk to property yields.

UK All-Property Valuation Score (%)



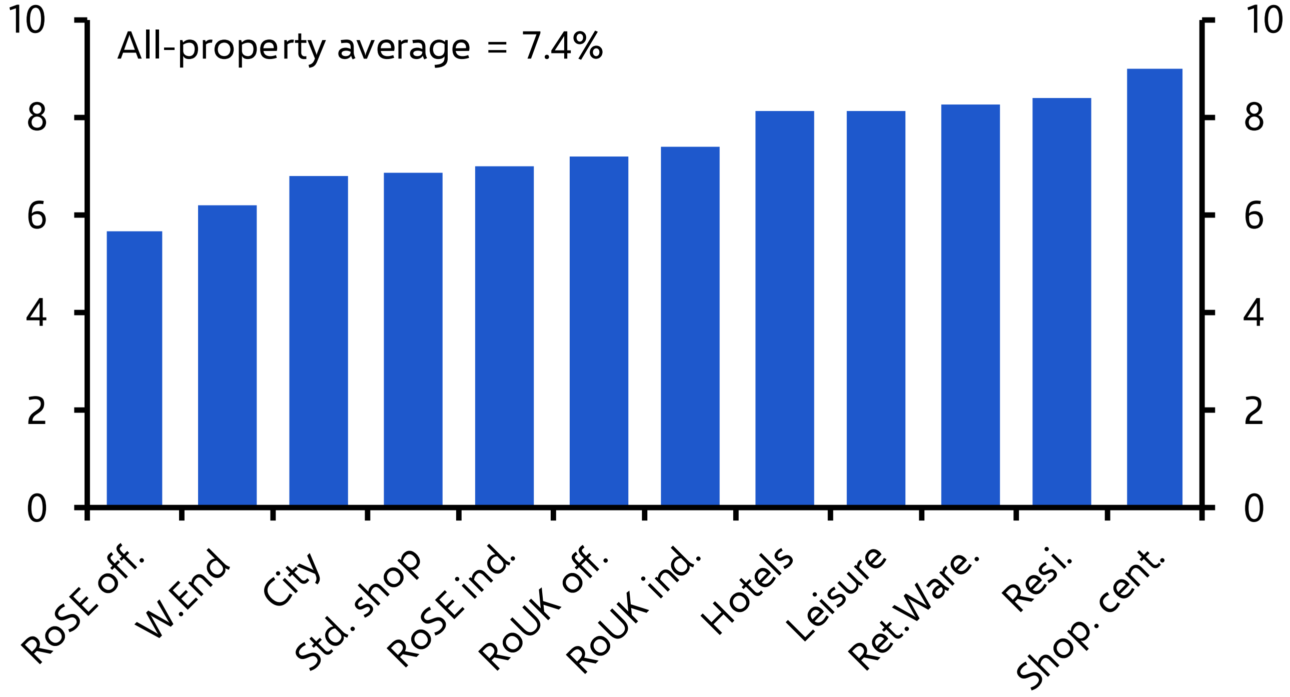
Source: Capital Economics

RICS Demand Balances (% Net Balance)



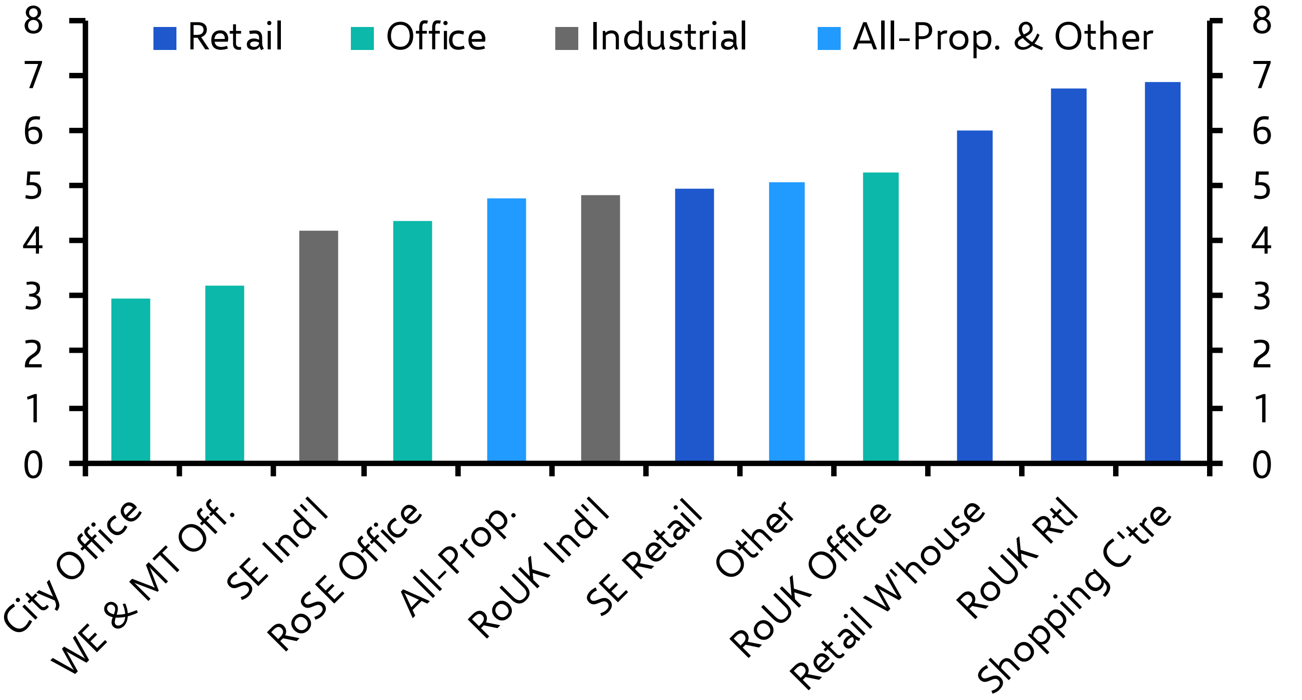
Sources: RICS, [Capital Economics]

Total Returns Forecast by Sector 2026-30 (% p.a.)



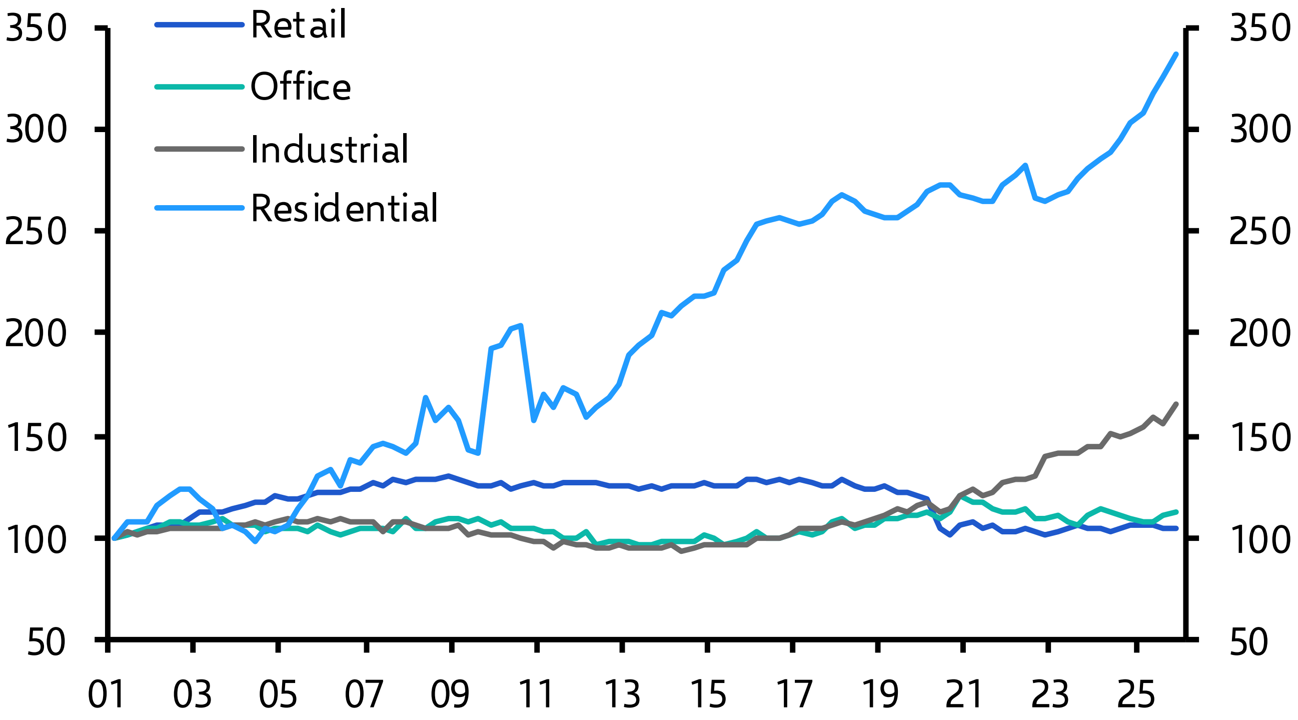
Source: [Capital Economics]

Income Returns, Q4 2025 (% y/y)



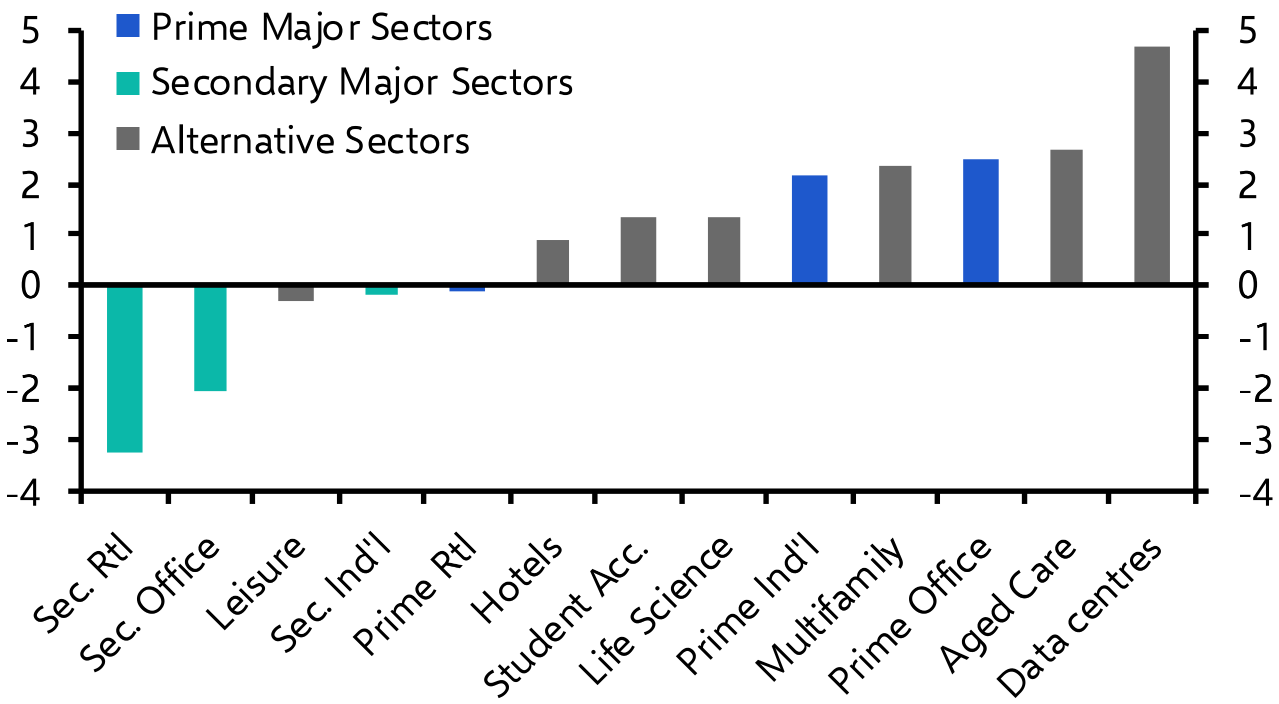
Sources: MSCI, Capital Economics

Net Operating Income (Index, Q1 2001 = 100)



Sources: MSCI, Capital Economics

12-Month Rent Growth Expectations, Q1 2026 (%)



Sources: RICS, Capital Economics

Conclusions

- Higher mortgage rates to dampen house price growth this year, particularly in regions where mortgage affordability is most stretched, such as London and the South East.
- The range of performance within the major commercial sectors will be limited relative to the past.
- But (secure) higher income returns and NOI growth will drive outperformance.
- Alternative property sectors look relatively attractive for long-term investment and development given their structural drivers.

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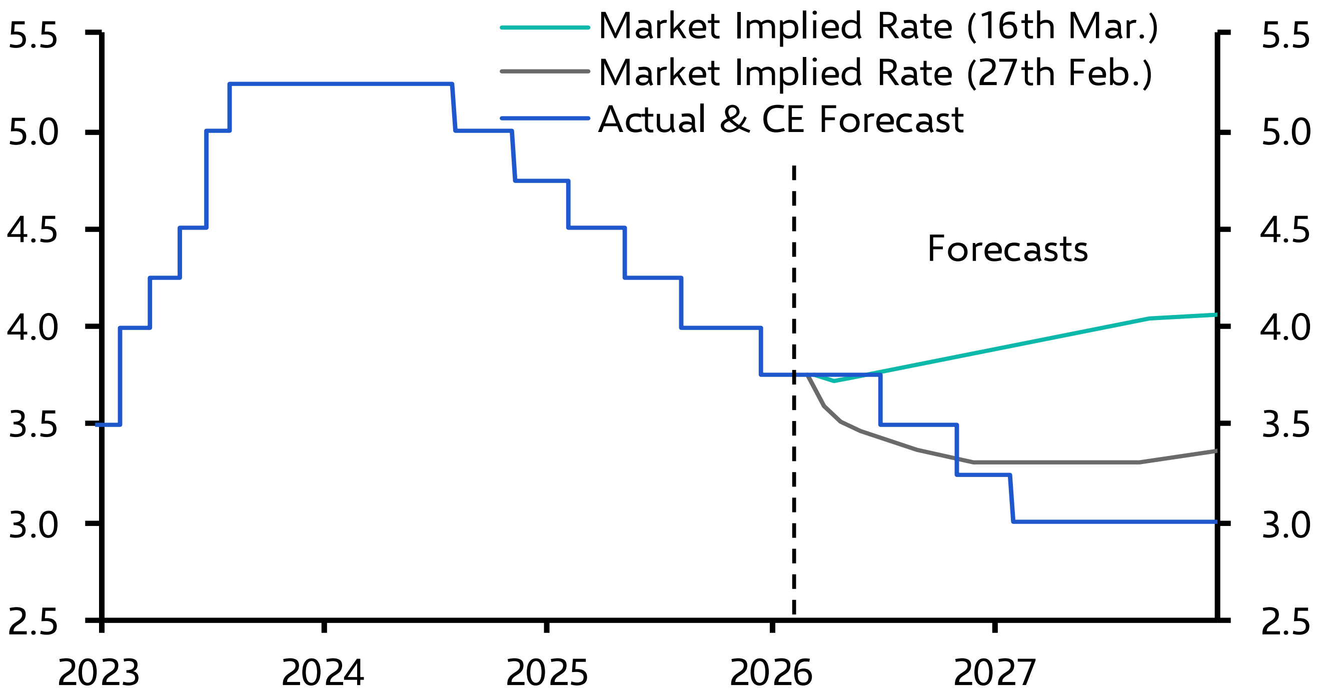
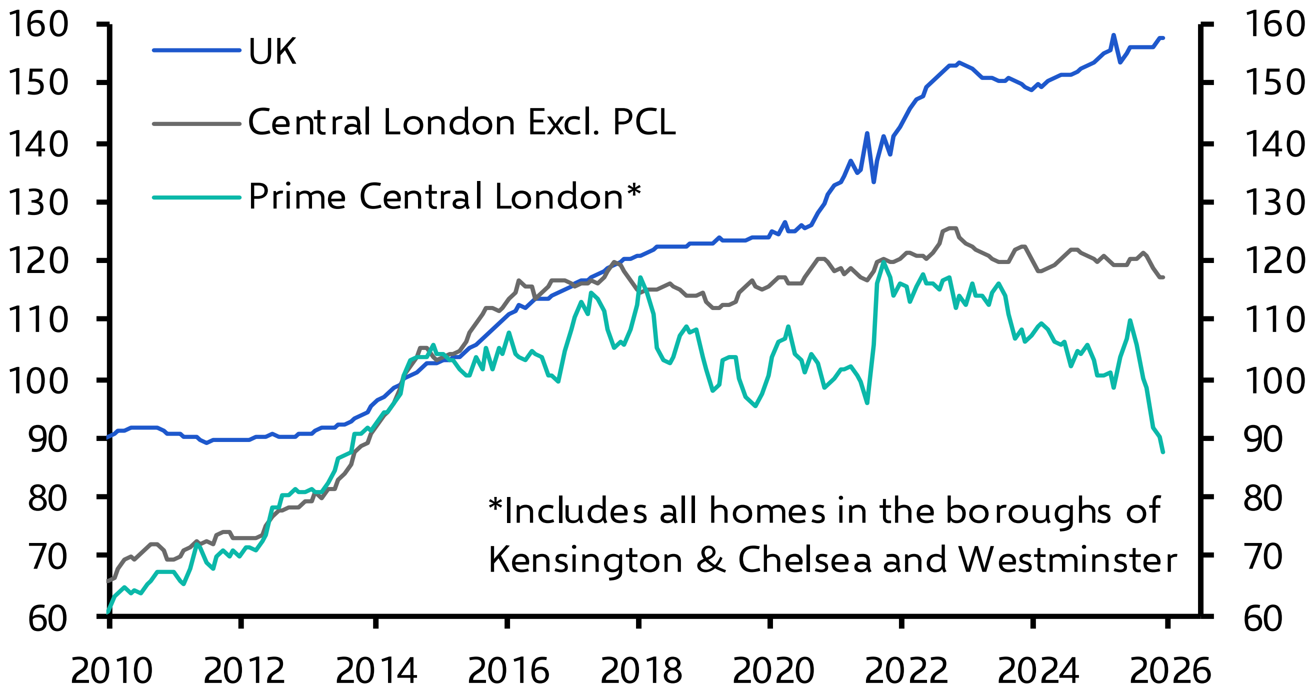
Bank Rate (%)



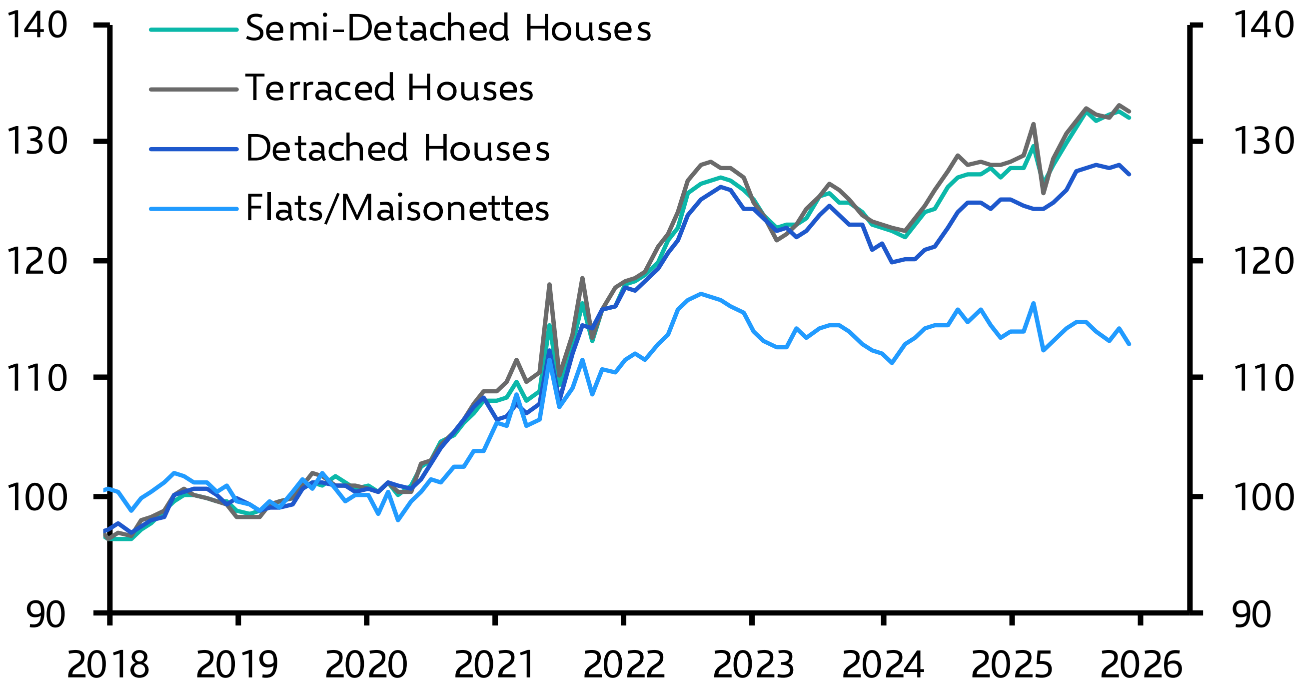
Sources: LSEG Data and Analytics, Capital Economics

Land Registry House Prices (2019 = 100)



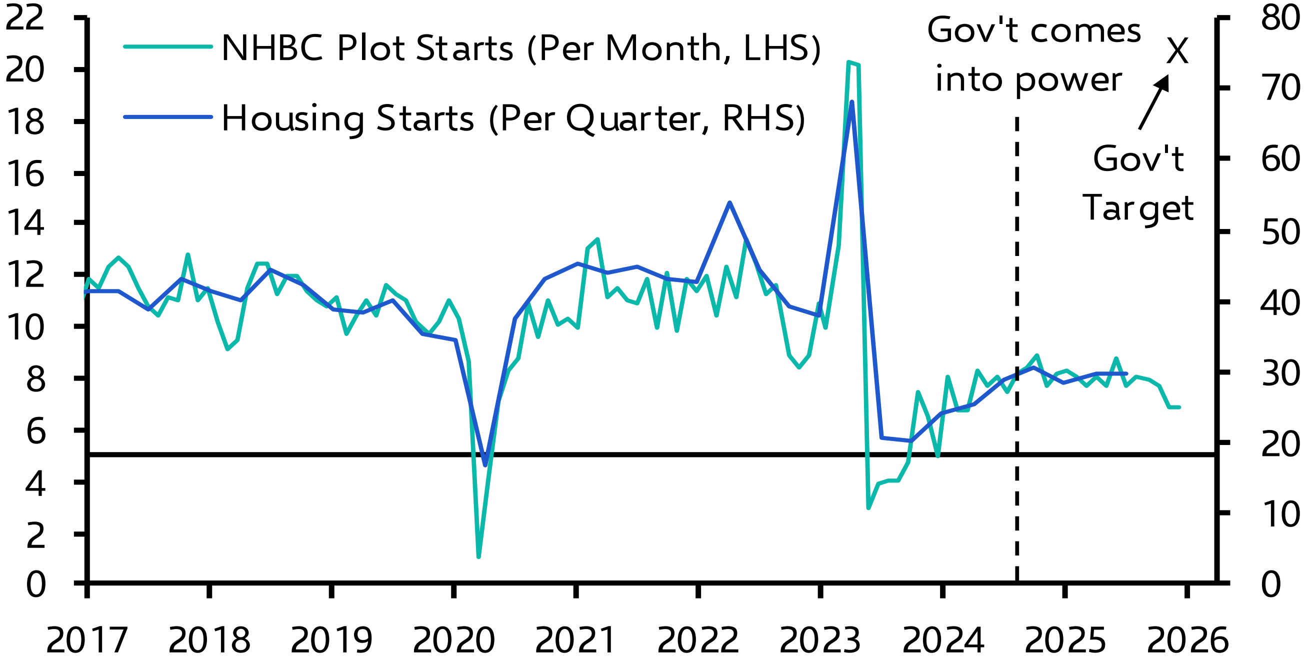
Sources: Land Registry, Capital Economics

Land Registry House Price By Property Type (2019 = 100)



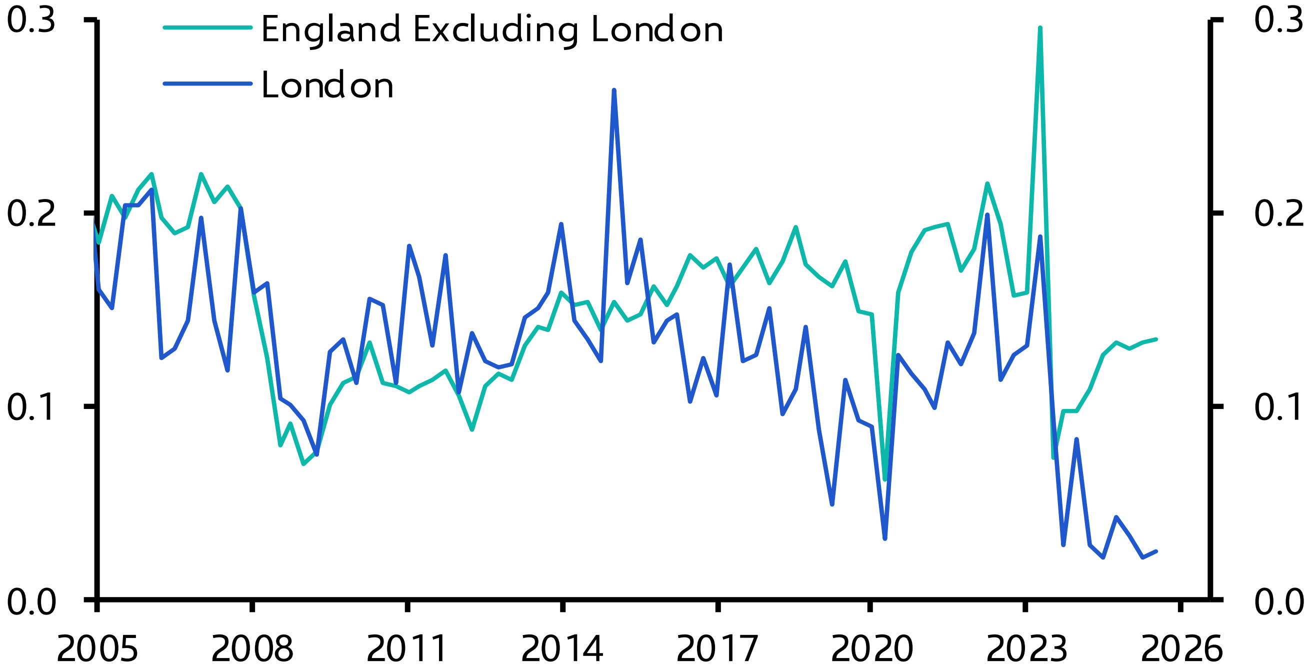
Sources: Land Registry, Capital Economics

Housing & Plot Starts in England (000s)



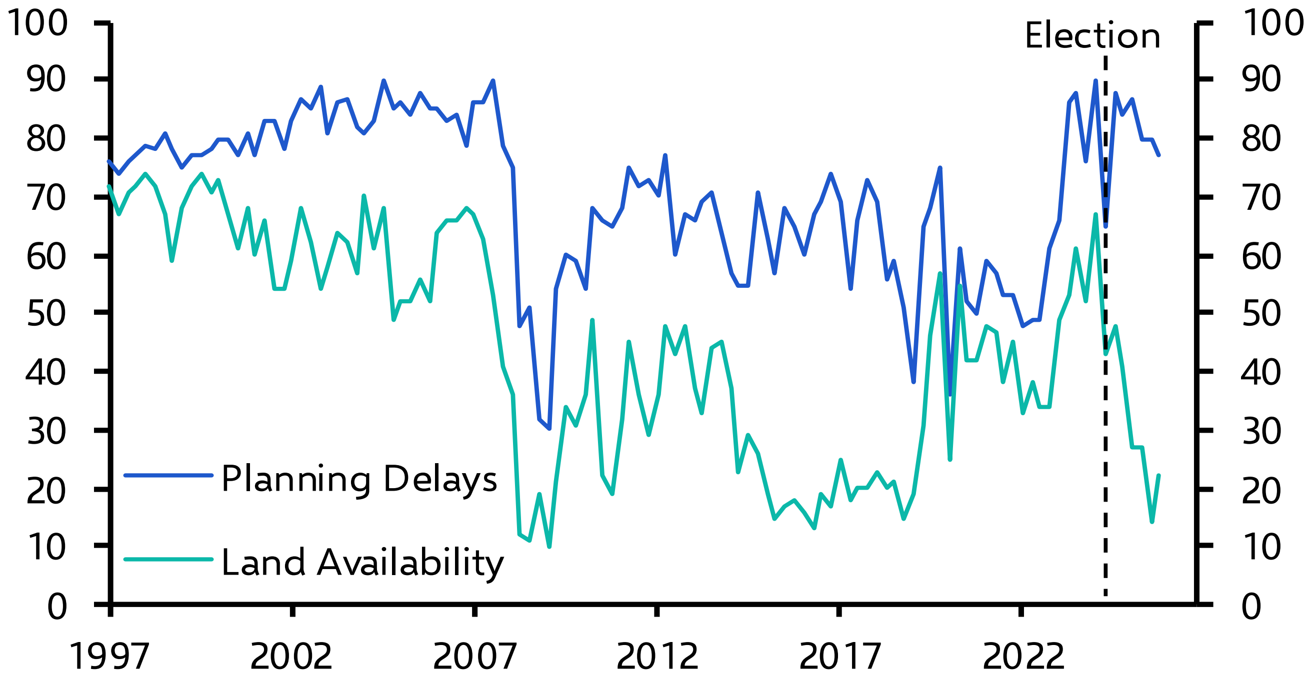
Sources: LSEG Data and Analytics, NHBC, Capital Economics

Housing Starts (As a % of Existing Dwelling Stock)



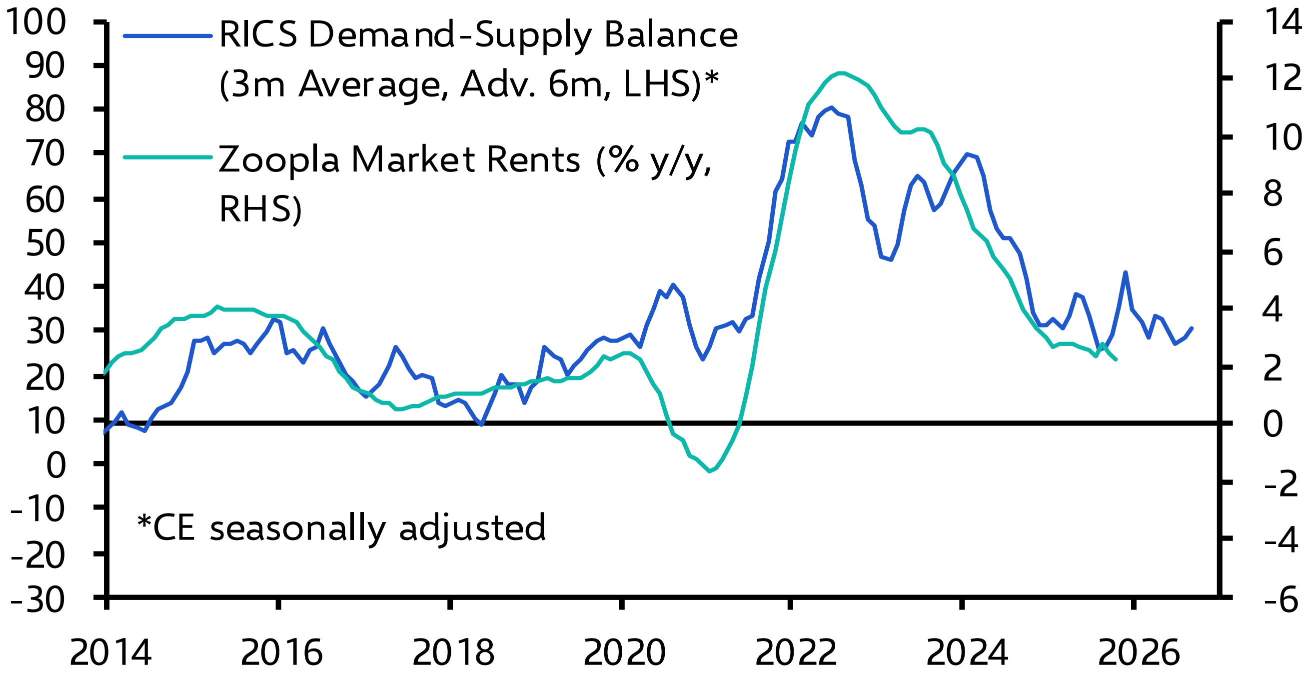
Sources: LSEG Data and Analytics, Gov.uk, Capital Economics

Constraints on Homebuilding (% of Respondents to NHBC Survey)



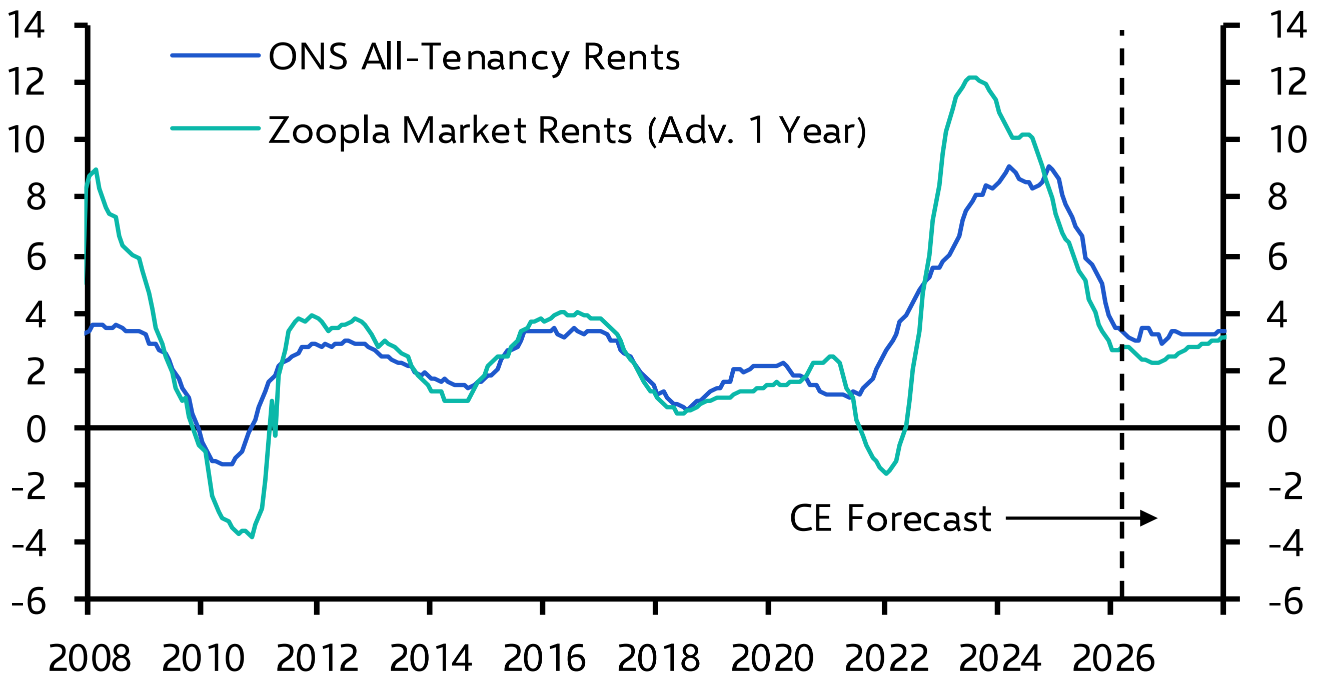
Sources: NHBC, Capital Economics

RICS Rental Demand-Supply Balance & Market Rents



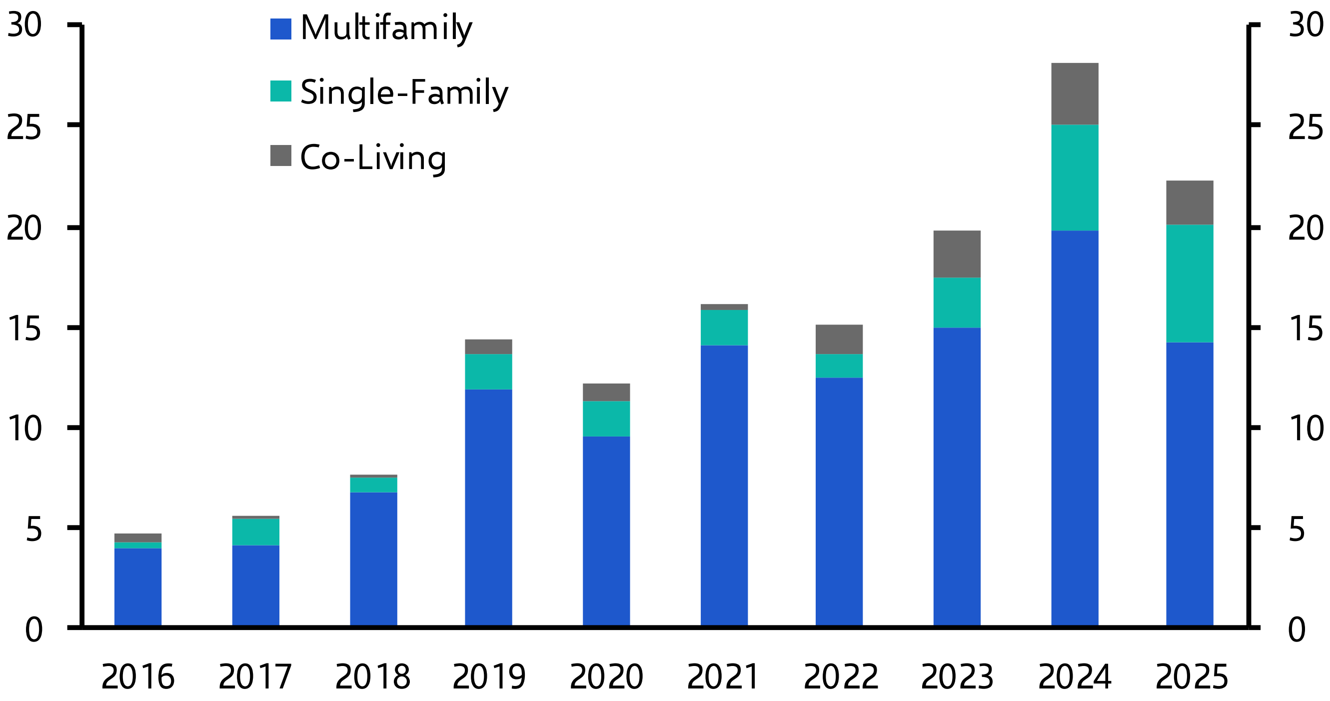
Sources: LSEG Data and Analytics, Zoopla, Capital Economics

Housing Rents (%y/y)



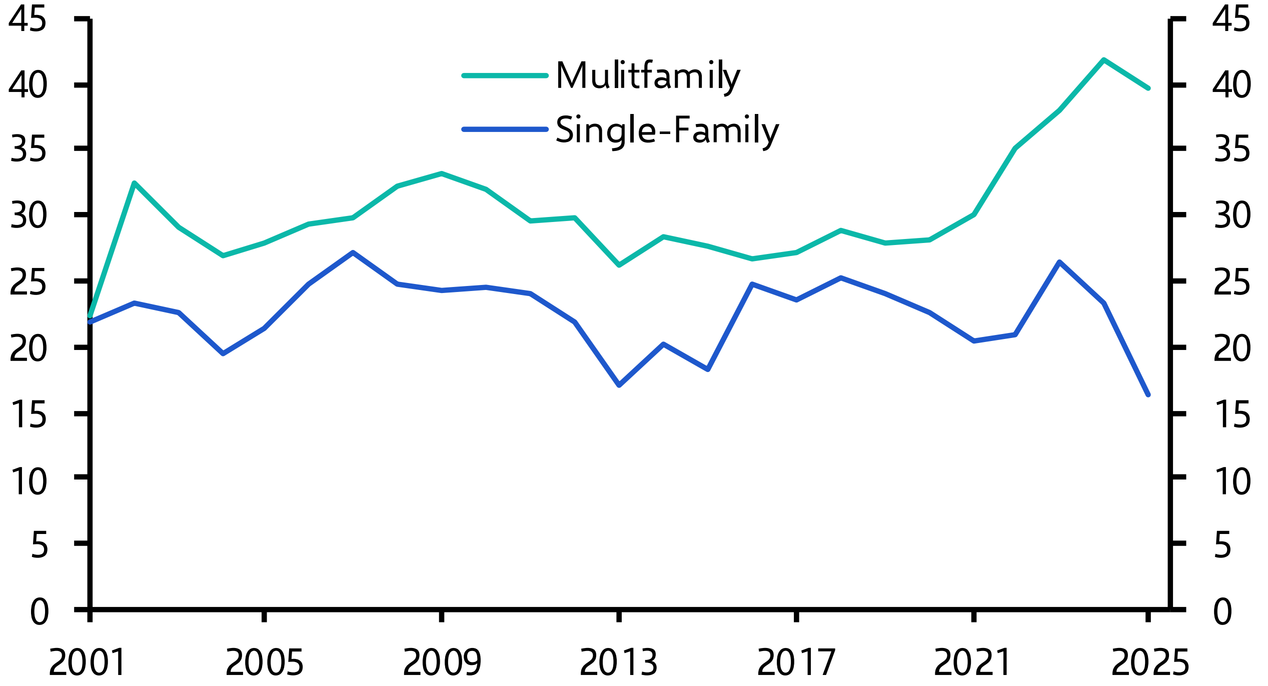
Sources: LSEG Data and Analytics, Zoopla, Capital Economics

Build-to-Rent Completions (000s)



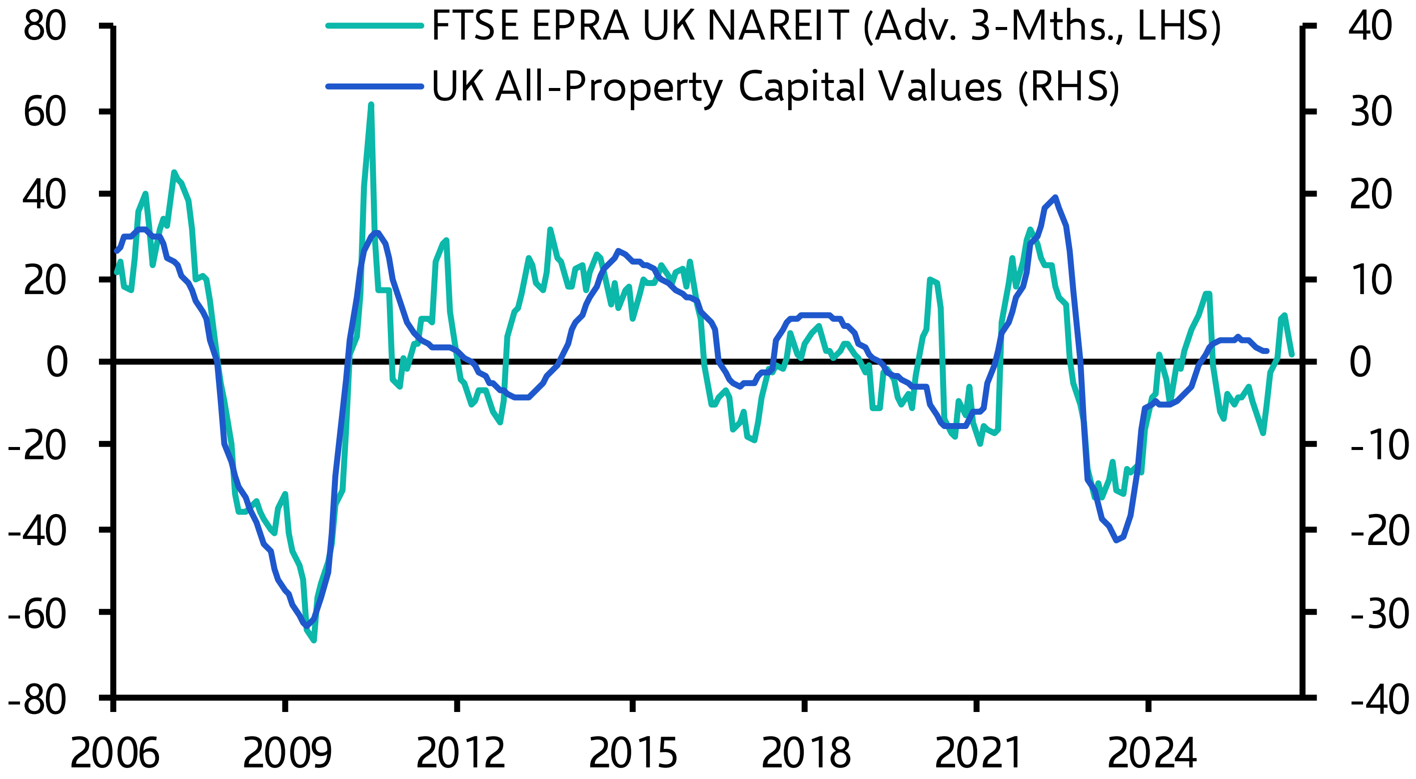
Sources: Bank of England, Capital Economics

Role of Price Expectations on Credit Availability (%, Net Bal.)



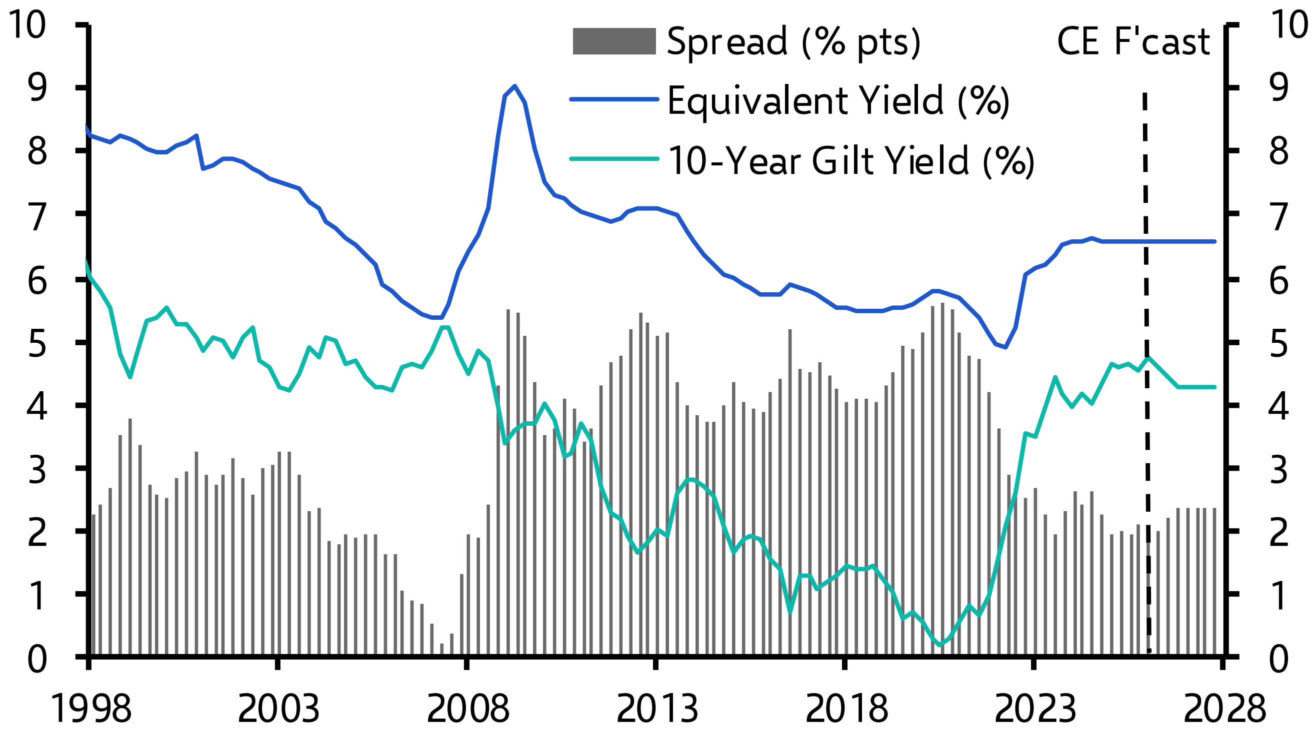
Sources: Bank of England, Capital Economics

NAREIT Price & All-property Capital Value Growth



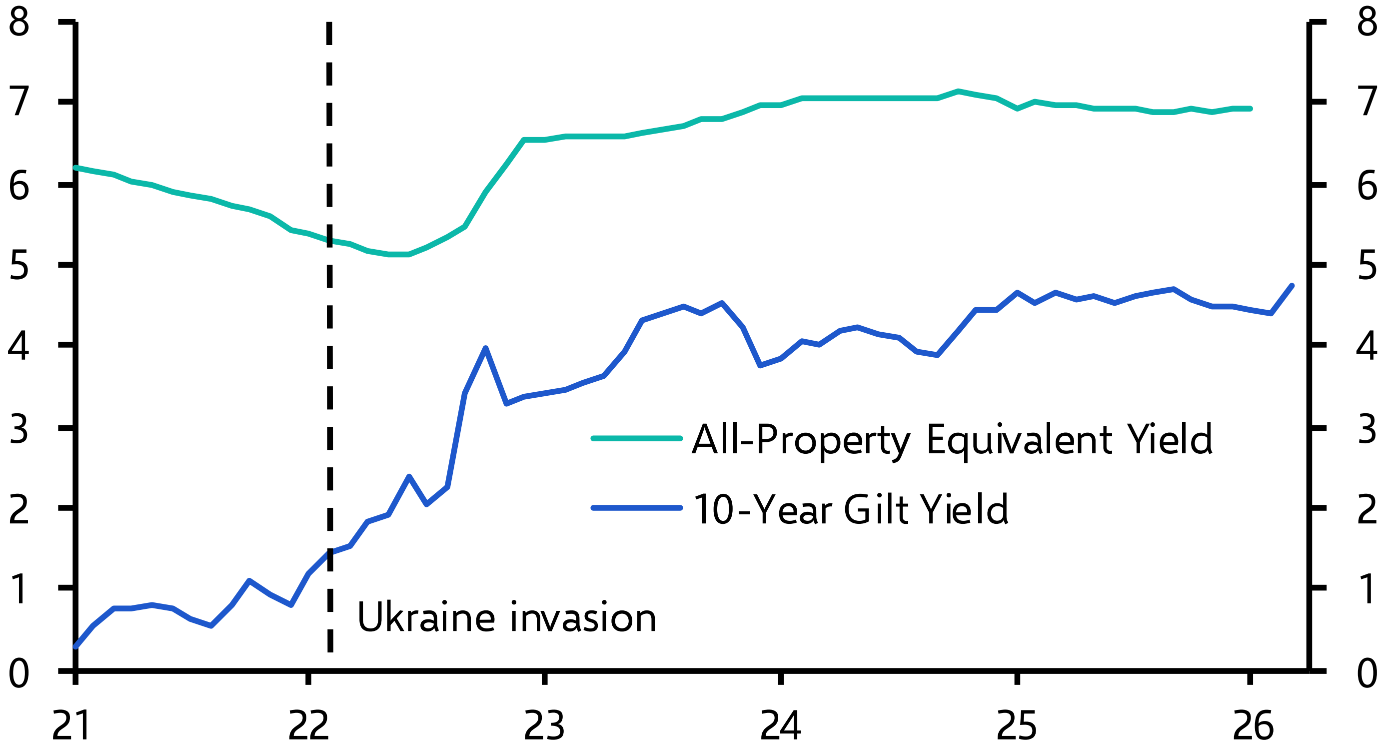
Sources: LSEG Data & Analytics, MSCI, Capital Economics

10-Year Gilt Yield & All-Property Equivalent Yield Spread



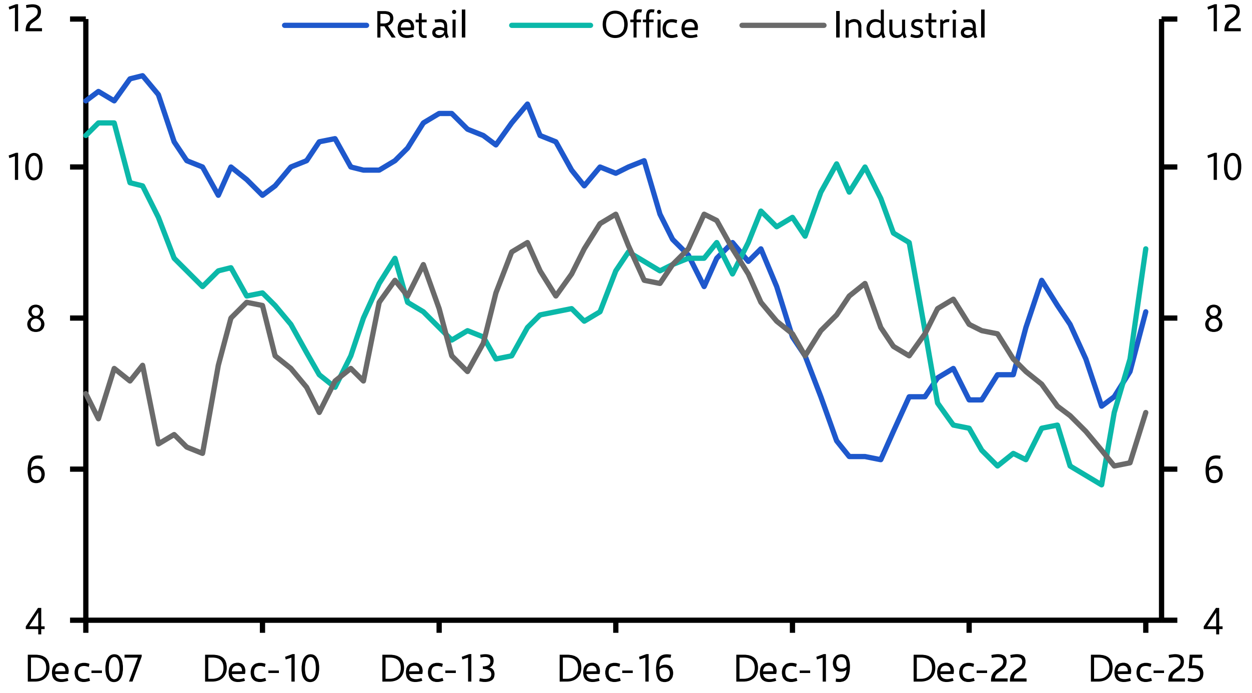
Sources: LSEG Data and Analytics, MSCI, Capital Economics

All-Property Equivalent Yield & 10-Year Gilt Yield



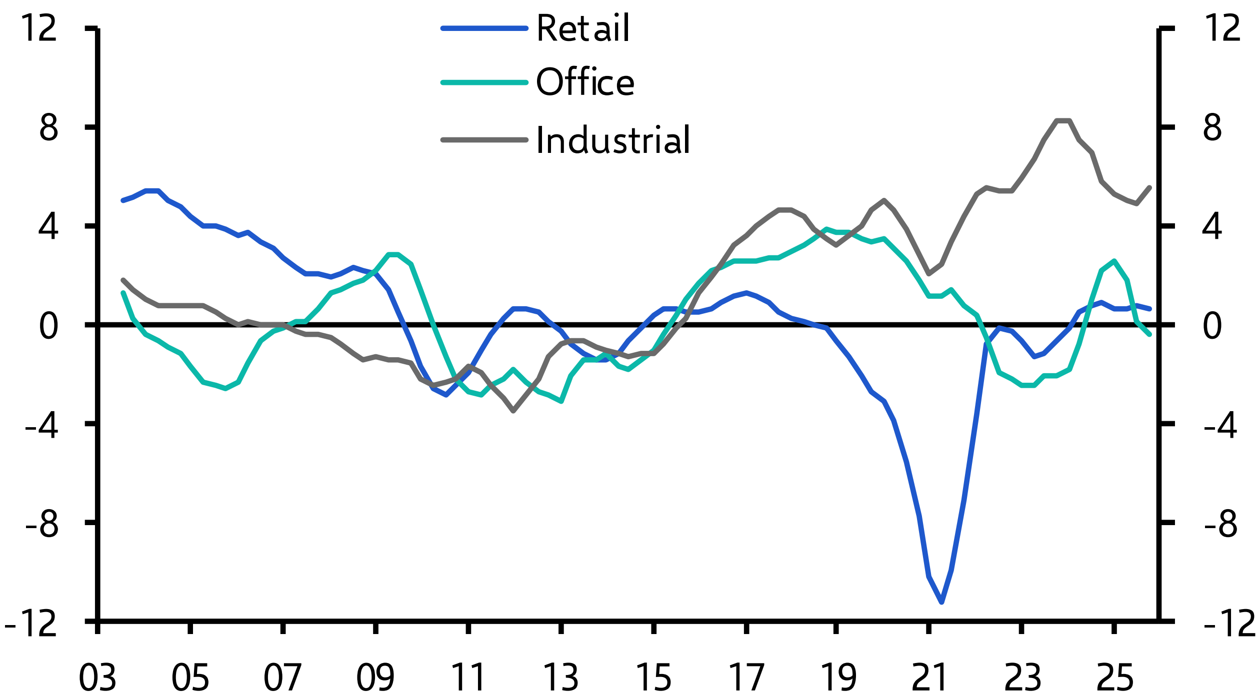
Sources: LSEG Data and Analytics, MSCI, Capital Economics

Average Lease Length to Break or Expiry



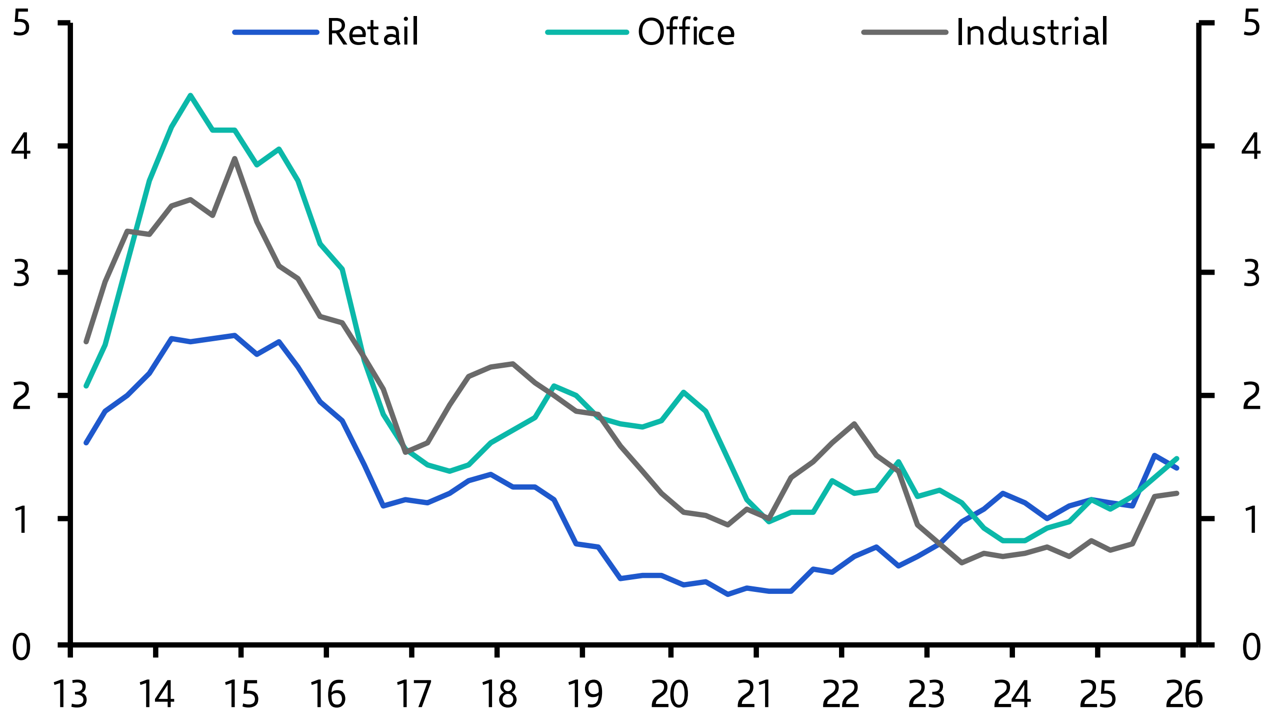
Sources: MSCI, Capital Economics

Net Operating Income Growth (4-qtr avg., % y/y)



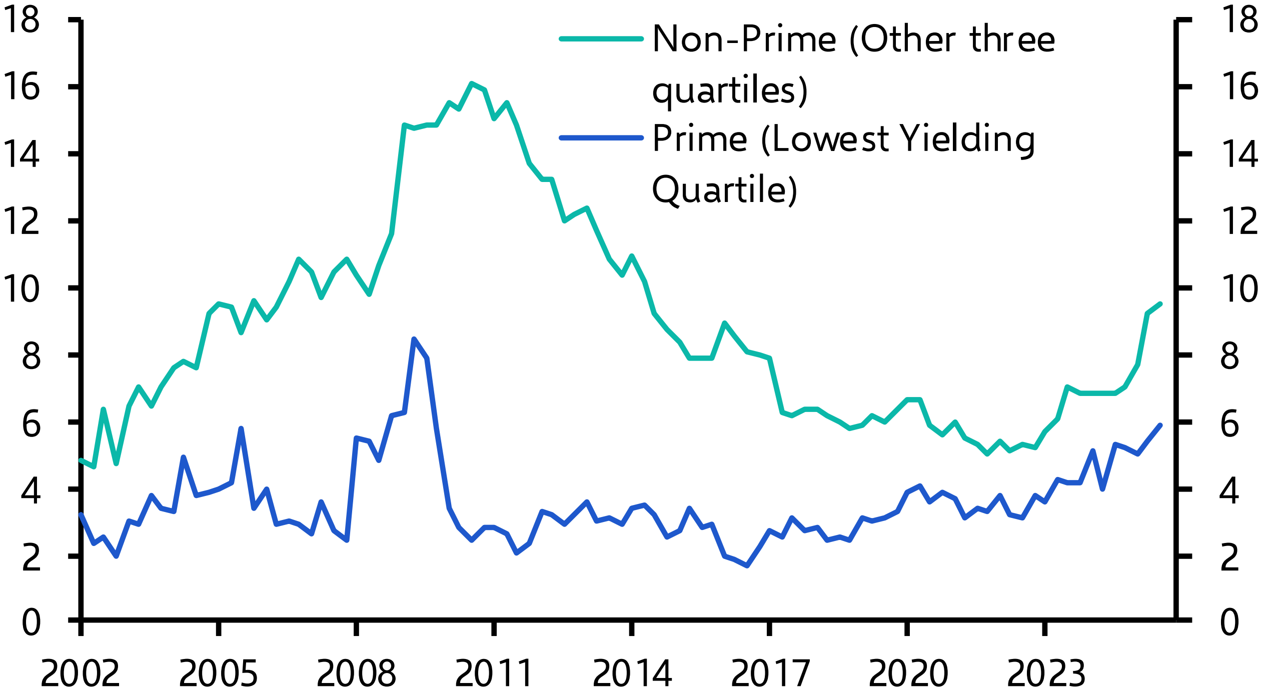
Sources: MSCI, Capital Economics

Capital Expenditure as a Share of Capital Value (%)



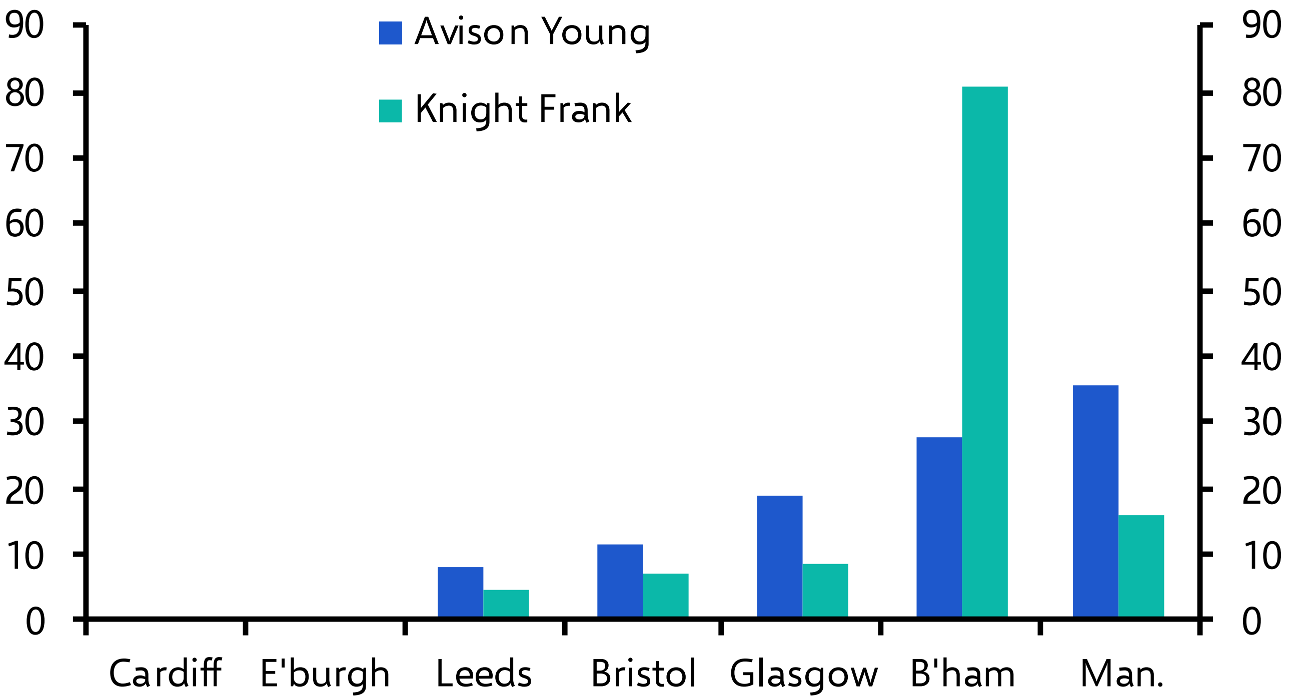
Sources: MSCI, Capital Economics

Industrial Vacancy Rate by Yield Quartile (%)



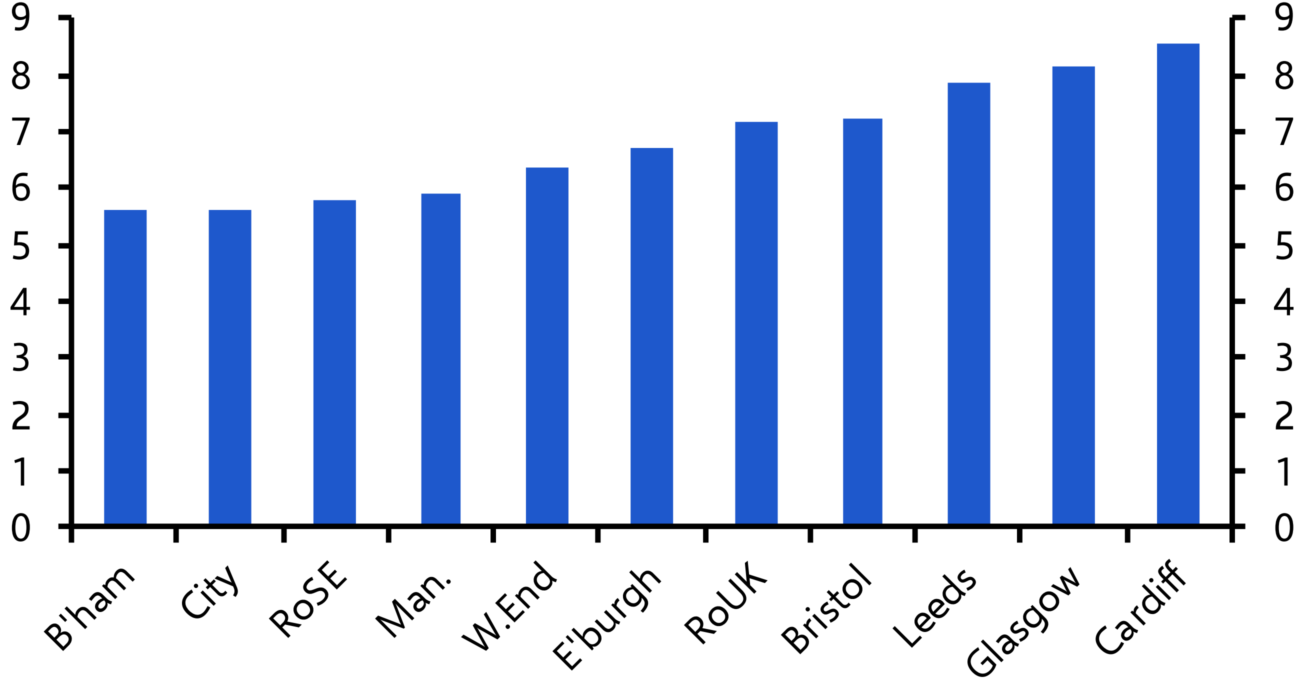
Sources: MSCI, Capital Economics

Speculative Office Pipeline (% of Annual Take-Up)



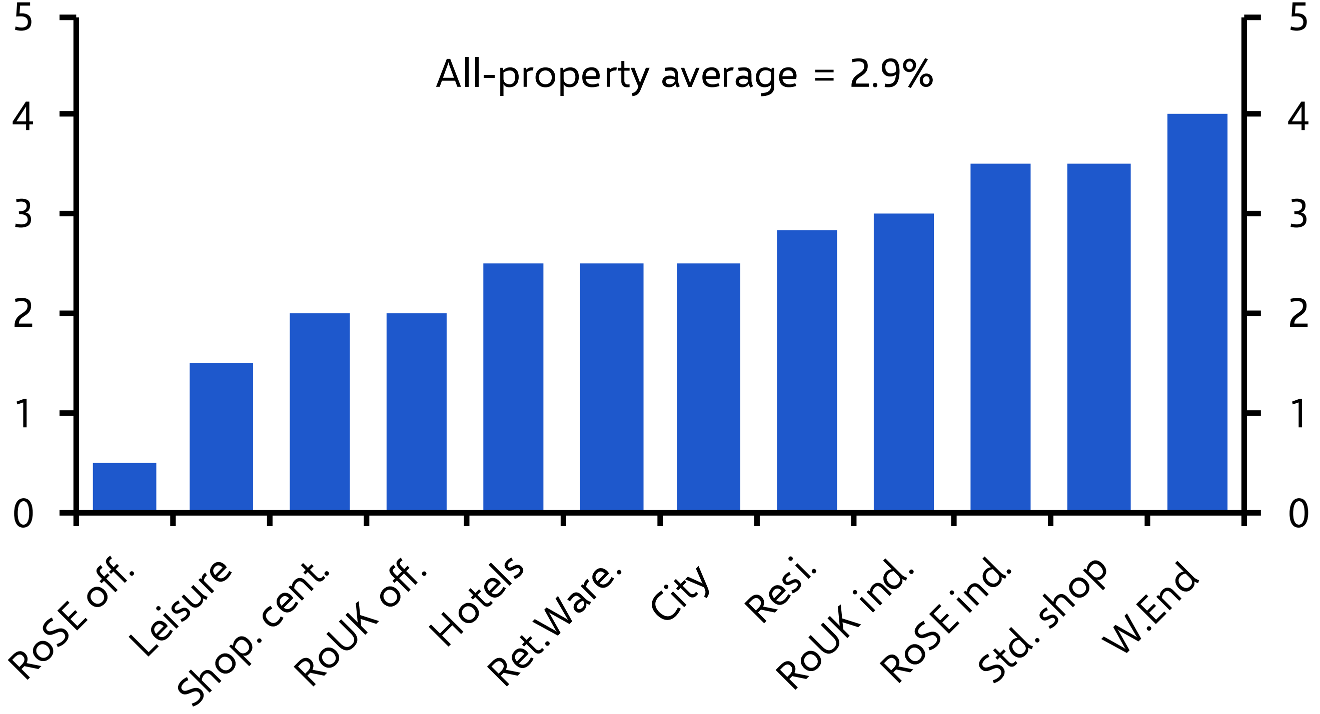
Sources: Knight Frank, Avison Young, Capital Economics

Office Total Returns Forecasts (2026-29, % p.a.)



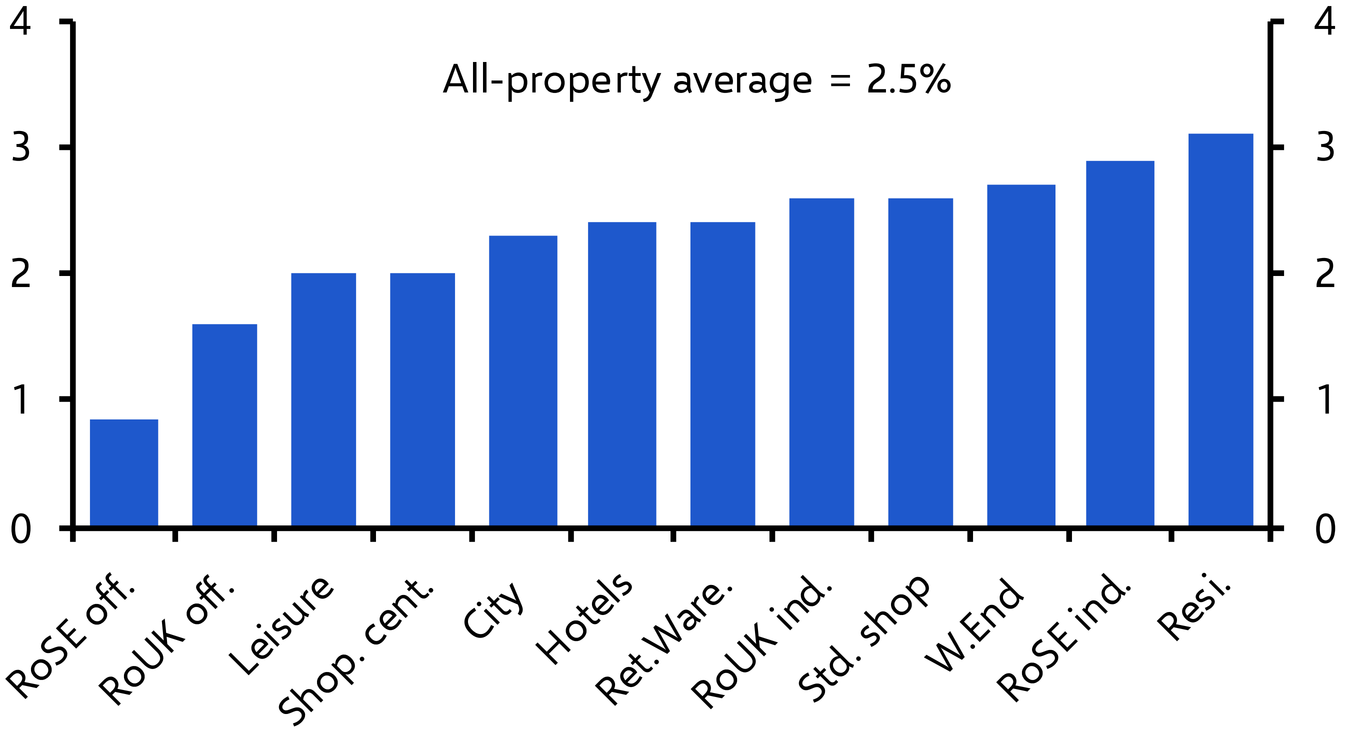
Source: Capital Economics

CE Forecasts for Rental Value Growth in 2026 (% y/y)



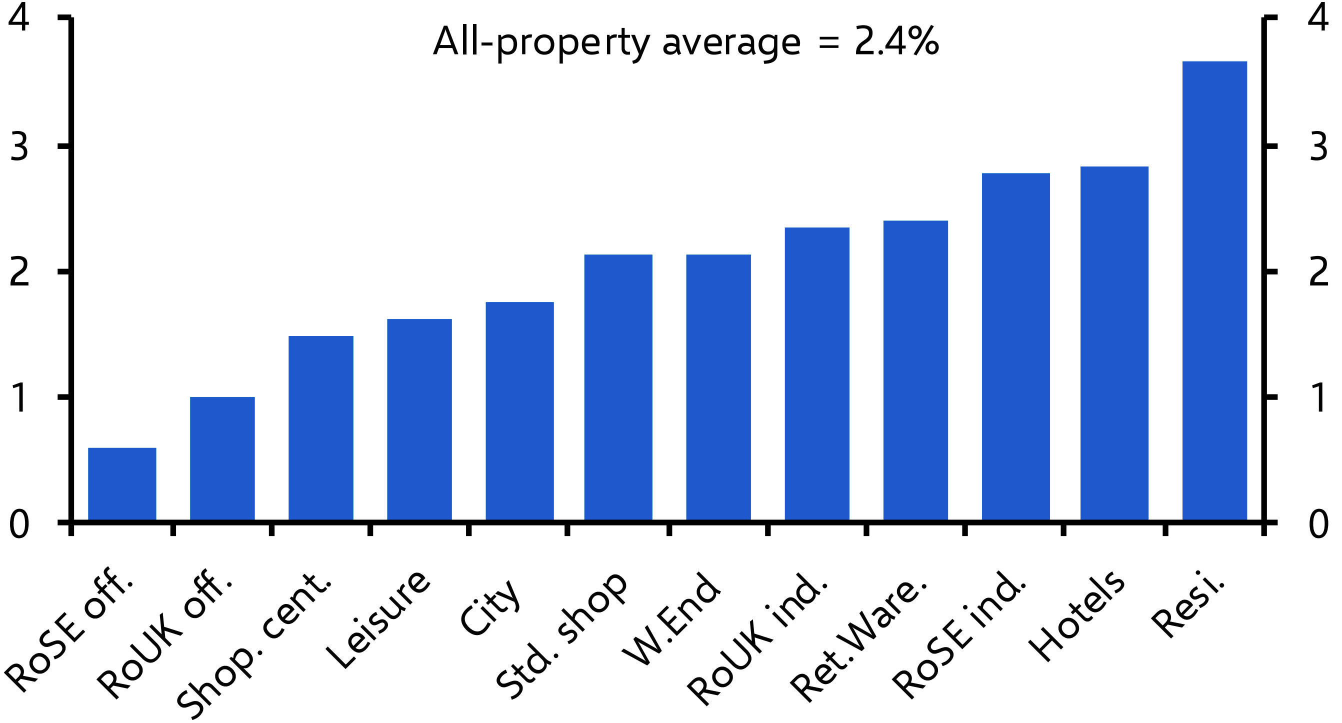
Source: Capital Economics

CE Forecasts for Rental Value Growth in 2026-2030 (% p.a.)



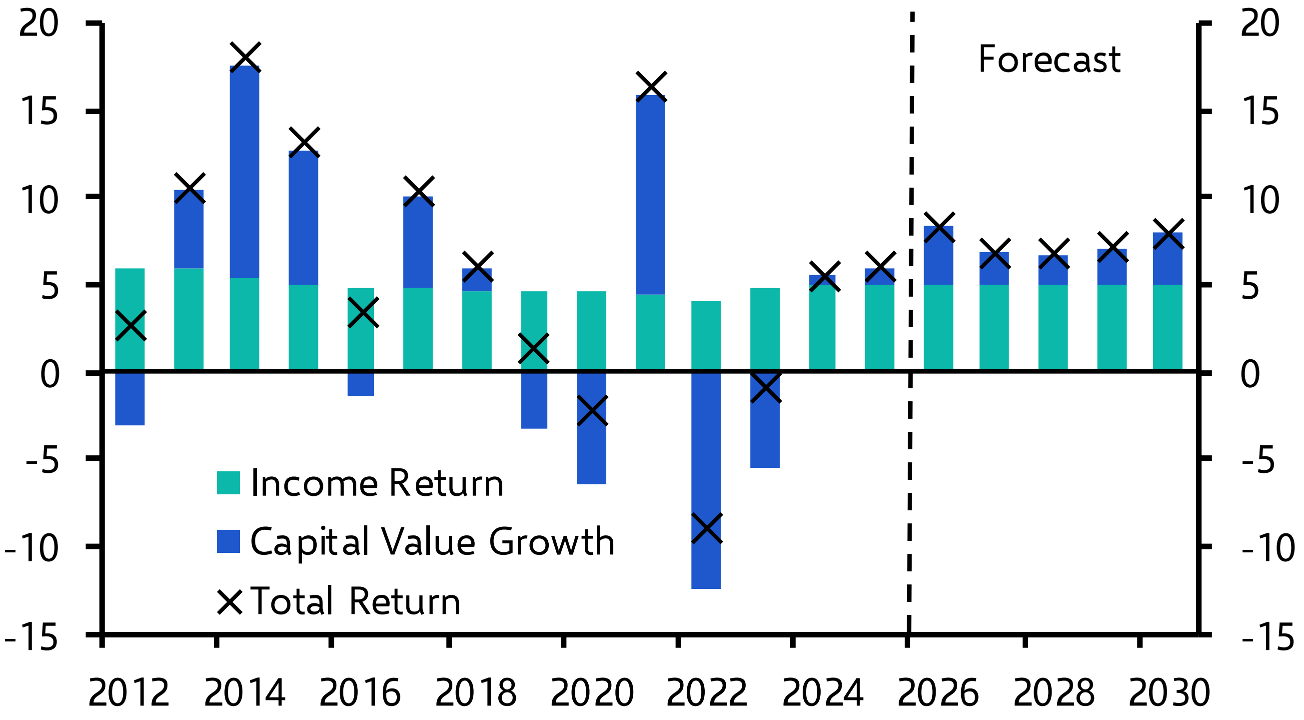
Source: Capital Economics

CE Forecasts for Capital Value Growth in 2026-2030 (% p.a.)



Source: [Capital Economics]

All-Property Total Returns and Components of Return (% p.a.)



Sources: MSCI, Capital Economics