

Debt Advisory

Real Estate Report

Autumn 2025

We see things
differently.

Contents

Headline views	01
----------------	----

Recent macroeconomic environment	02
----------------------------------	----

Monetary policy considerations	03
--------------------------------	----

Developments from the Spending Review	04
---------------------------------------	----

Predictions for the November Budget	05
-------------------------------------	----

Forward funding: A market re-alignment	06
--	----

Impact on developers	10
----------------------	----

Outlook & conclusion	12
----------------------	----

Headline views

1

UK property market is improving in H2 2025; with house prices up 2.8% year-on-year.

2

Base rate was held steady at 4.00%, with a neutral rate of 3.5% priced in by markets.

3

Worsening fiscal position gives rise to debate over property taxes.

4

Housing reforms slowly starting to be seen, but regulatory hurdles remain.

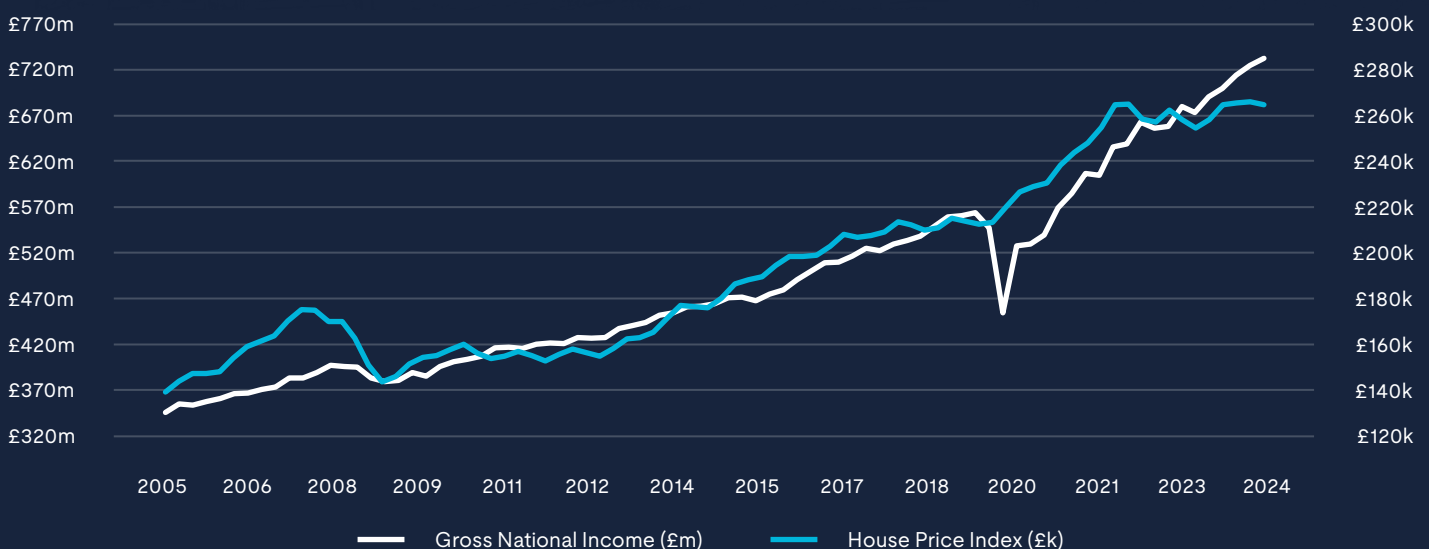
Recent macroeconomic environment

Housing Market Indicators

The UK housing market continues to show cautious signs of equilibrium following recent turbulence caused by increased interest rates and contractionary tax changes. The average UK house price stood at **£270,000** in July 2025, a 2.8% year-on-year increase. More recent short-term movements in housing

indicators remain mixed. Halifax reported 0.3% growth in August, marking a third consecutive monthly rise, while Nationwide posted a +0.5% monthly gain in September. Both Halifax and Nationwide have registered annual gains just over 2%, signalling modest momentum, but disinflationary from a few months ago.

Fig.1 UK House Prices



Regional variation remains stark. Northern Ireland has sustained double-digit gains during the past year, while the North East has also grown strongly at nearly 8% year-on-year in July. London, by contrast, shows minimal annual growth at around 0.7% and is flat on a monthly basis, with much of the South also subdued or negative.

Demand has softened following the April 2025 stamp duty adjustment, though mortgage approvals have ticked up from the start of the year, albeit falling marginally in August. High borrowing costs remain a brake on activity, while recent changes to the HPI methodology have moderated new-build price inflation.

Looking ahead, house prices are expected to rise by **2-4% over the next year**, supported by resilient demand in more affordable regions but constrained by persistent affordability pressures. As Figure 1 continues to suggest, there is a divergence between national income, which usually grows with house prices, and the current outturn. Though as we stated in [our last real estate report](#), further gains depend heavily on interest rate policy and targeted supply-side measures.

Monetary policy considerations

The Bank of England maintained the base rate at 4.00% at its September 2025 meeting, with a 7-2 split. Two members backed a 25 basis point cut, reflecting growing concern over weakening economic conditions. This decision came against expectations in some parts of the market for a more decisive move lower, underscoring the Bank's cautious stance as inflation remains above target.

Headline CPI inflation stayed flat at **3.8% in August**, unchanged from 3.8% in July. Energy costs have stabilised but remain elevated, while transport and food have been key drivers of the recent rise. Core inflation eased to 3.6% in August, but not fast enough to give the MPC full confidence that inflationary risks are receding.

The labour market continues to soften. Unemployment increased to **4.7% in the three months to July**, the highest since 2021, with vacancies declining steadily over the past year. Furthermore, the Decision Maker Panel survey found that, in the three months to September, businesses anticipated maintaining their current workforce levels over the next year, marking the first time since the three months to November 2020 that they did not forecast a rise in staffing. Annual wage growth excluding bonuses slowed to **4.8%**, down from over 5% earlier in 2025. The moderation in pay growth is most evident in consumer services, while the construction sector still reports above-average increases, sustaining pressure on costs.

These dynamics leave the Bank in a difficult position. On one side, slower wage growth and rising unemployment point to diminishing domestic inflation pressures. On the other, headline inflation remains sticky and risks becoming entrenched if policy is eased too quickly. The risk of a weak-growth, high-inflation environment persists, keeping policy finely balanced.

For property markets, the implications are twofold. Softer labour conditions could weigh on household confidence and housing demand, while elevated inflation and interest costs maintain pressure on affordability. Nonetheless, higher inflation reduces the real burden of debt, supporting some demand for

mortgage borrowing. Average rates stand at around **4.75% for two-year fixes and 5.09% for five-year terms** at 75% LTV. Market expectations currently price in one, possibly two, cuts before year-end, likely bringing the base rate to **3.50-3.75% by December 2025**.

Developers have one eye on costs and the other on house prices, aiming to strike that balance between reducing costs, maintaining profit margins, and ensuring the quality that results in full plot sales.

Exchange Rate and External Factors

Sterling has gained notably in 2025, reaching a **high of \$1.38** in July. More recently, it has settled in the **\$1.34** region as of late September. strength has helped temper imported inflation pressures, especially on construction materials, though persistent supply chain disruptions still lead to occasional cost surges.

The pound's relative resilience is underpinned by stronger economic fundamentals compared to many peers and the Bank of England's more hawkish posture. Still, uncertainty over fiscal policy, geopolitical risks, and the potential for shocks in global trade pose ongoing challenges.

Developments from the Spending Review

The government's Spending Review 2025, announced in June, represents the most significant housing policy intervention in a generation. The £39 billion Affordable Homes Programme, spanning ten years from 2026-27 to 2035-36, aims to deliver substantial increases in social and affordable housing supply.

Key elements of the programme include a commitment that at least 60% of homes delivered will be for social rent, with up to 30% of funding delivered through the Greater London Authority and 70% through Homes England. The programme eschews numerical targets in favour of strategic flexibility, allowing established mayoral authorities to set local direction.

The creation of the National Housing Bank, a subsidiary of Homes England with £16 billion of financial capacity, represents a fundamental shift in housing finance. This institution will leverage £53 billion of private investment to deliver over 500,000 new homes, providing long-term, flexible capital to support SME developers and unlock complex sites.

Planning reform features prominently in the government's strategy, with the Planning and Infrastructure Bill 2025 introducing mandatory member training for planning committees, national delegation schemes, and increased planning fees ringfenced for service delivery. These measures aim to address the chronic under-resourcing of planning departments that has contributed to development delays.

The government has also announced £2.5 billion in low-interest loans to facilitate building projects, alongside reforms to the Treasury's Green Book rules to shift investment beyond London and the South East. These measures, combined with enhanced compulsory purchase powers and streamlined environmental assessment processes, signal a comprehensive approach to supply-side constraints.



Predictions for the November Budget

The November 2025 Budget is expected to be framed by a sizeable fiscal gap, with estimates ranging between £20-50 billion as growth and long-term productivity forecasts are downgraded. With headline tax rates politically off-limits, the Chancellor is likely to lean on targeted measures, many of which will have direct consequences for the property sector.

Threshold freezes are almost certain to be extended, intensifying fiscal drag for landlords and higher earners. Adjustments to **capital gains tax** are under active discussion, with closer alignment to income tax rates seen as a likely option, directly impacting property disposals. **Council tax reform**, either through revaluation or banding changes, is also being explored as a politically feasible way to shift the burden toward higher-value homes, particularly in London and the South East.

On the corporate side, reforms to **business rates** are expected to feature prominently, with large retail and logistics operators facing heavier contributions, though smaller premises may benefit from targeted reliefs. Additional environmental levies linked to energy efficiency are also being considered, placing pressure on landlords to retrofit older stock. Developers could be affected by tighter rules on VAT recovery and potential revisions to **stamp duty land tax**, which would influence transaction dynamics.

Alongside these revenue-raising measures, the Chancellor may include selective growth initiatives. Potential incentives for **brownfield redevelopment**, modular construction, and energy-efficient housing are under review, though such support is unlikely to outweigh the broader push for fiscal consolidation.

Overall, the Budget is likely to deliver a mixed outcome for property: heavier tax exposure for investors and owners, combined with selective support for supply and sustainability. The balance of these measures will be critical in determining market sentiment and capital flows into 2026.

Anecdotally, we're seeing a slow down in the new homes market. Whether or not this is temporary will depend on market reaction to relevant budget announcements.

Forward funding: A market re-alignment

How forward funding works:

Forward funding is a type of development funding provided by investors to developers to allow (predominantly) large property schemes to be developed; usually upwards of 100 units and often significantly more. The forward funder (often pension funds or longer term real estate investors) legally agrees at the outset to purchase the completed development at a confirmed price once the scheme is completed and trading at maturity. They will then advance the funds for the full build costs and all associated costs on a staged drawdown basis, ~80% of the agreed purchase price (the GDV). The developer benefits by receiving funding for their project and a share of the overall profit.

Key takeaways are that investors have more control over the build and will release funds at a pre-agreed amount at certain points along the development timeline. This provides a source of capital for developers above and beyond the amount available from Alternative Lenders/Private Debt funds, but with a secure exit route not dependent on open market conditions at the time.

There are different structures around how the funds are released and who owns the land, for example sometimes the forward funder will want to complete the development themselves. A typical structure, however, would be for the forward funder to purchase the land with planning from the developer, enter into a JCT contract with them. The developer would either have to have the ability and track record to develop out by themselves or appoint a main contractor, usually Tier 1 or upper Tier 2 if the build costs are £50m+.

The developer would therefore have all but their initial costs covered, a guaranteed build project over 24-36 months with a net profit margin built into each drawdown of funds, and an agreed share of the 'profit' – the difference between the costs and the GDV, which is calculated on a yield basis. This would be less than if they developed the scheme themselves but to do so they would also have required an extra 10%-20% equity, which given the size of these schemes means large amounts of cash.

Factor in that if the completion is on time and budget, there would be similar opportunities in future so it's easy to see why this business model was attractive to developers.





Which sectors utilise forward funding?

PBSA (Purpose Built Student Accommodation) has been a beacon for this type of funding for two reasons. The demand far outstrips the supply, as per our 2025 Q1 Property Report, and new student residences have historically maximised their occupancy extremely quickly given the set date students have to be in by, and that each new year of students wants to be in the newest available accommodation.

There are also opportunities within the PRS (Private Rented Sector), notably BTR (Build to Rent) which can be sub-divided into Multi Family Units (predominantly high rise city centre apartments), Single Family Units (multiple house on one development often in secondary, suburban locations) and Elderly Living, which means retirement villages/complexes. It's more complicated than this as there can often be mixed use schemes, for example PBSA might incorporate some BTR units and a larger Single Family Unit of 200+ homes might be a mix of BTR, open market and affordable housing, however hopefully this helps to provide some context.

Market re-alignment

With higher interest rates and tariffs, there has been a slow down in the amount of forward funding available over the last couple of years. As is so often the case, when one door closes, another one opens. There are still plenty of funds available for well-thought-out, profitable schemes in the right locations with the right demand.

New funders have spotted opportunities and capital has come back into the market, even as others have pulled back. The period in between where there was minimal funding available is now providing plenty of pent up demand for developers, some of whom still have pre-Covid schemes that have only just returned to financial viability.

There are certainly signs of a shift in the PBSA market with continual daily updates of schemes moving forwards, which is great news for the industry. The question now is, from a developer's perspective, how do I get my project funded and, from a forward funder's perspective, which horse should I back?

When one door closes, another one opens. There are still plenty of funds available for well-thought-out, profitable schemes in the right locations with the right demand.

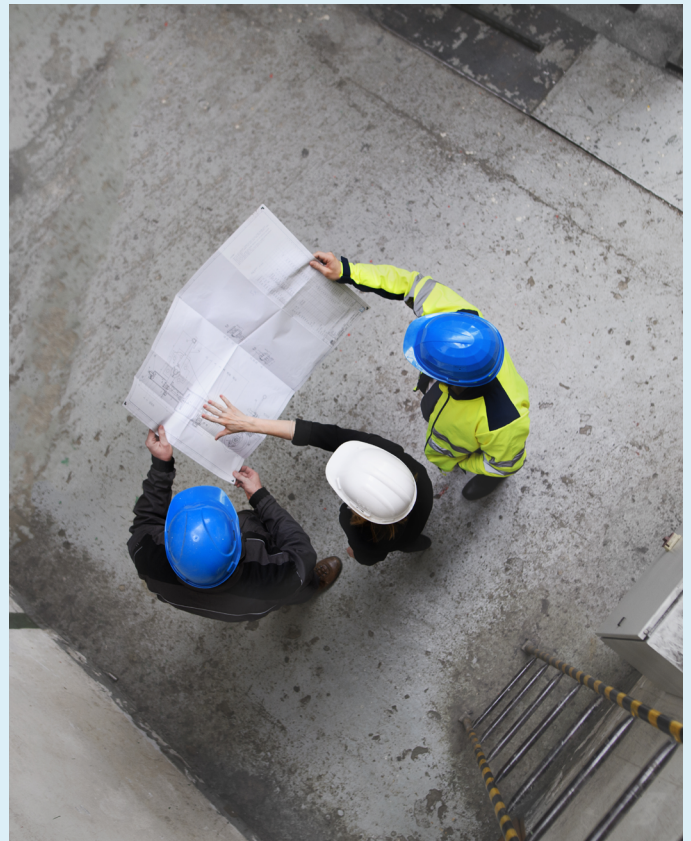
Challenges for developers

As a developer you may have been working on a project for a period of time and/or worked with one forward funder multiple times who has now exited the market.

This will often mean that, through no fault of your own, you may not be sure where to turn when you next have a project to fund, or it might even make it questionable as to whether you decide to go ahead with the scheme at all.

These scenarios create multiple questions:

- How do I fund my next project?
- Are there other forward funders out there?
- Who are they and how do I approach them?
- How much additional time will I now have to spend on securing finance, which is only one piece of the development puzzle?
- What do I need to provide for the forward funder to select my development to back?



Challenges for forward funders

Forward funders that are active now have a completely different challenge. They can afford to be very selective about which deals they consider and progress. Rather than being faced with the prospect of trying to find and win a deal against their competitors, and with potentially finer margins, they are now able to take their pick of the deals that cross their desk without the requirement for a focused deal origination strategy.

If there are 10 or 20 (or more) active proposals on your desk, which ones should you choose to back and why should you choose one similar scheme over another?

Solutions

One important element to note here is that developers used to be able to fund these schemes with only an option on the land. Now, with more choice than ever for forward funders, it's important that the developer owns the land. This provides more questions for developers, who often don't want to purchase the land outright without an exit plan secured, and lenders who provides funds against land with or without planning still require an exit route, so developers can't borrow the majority of funds required.

All the above means the forward funders should be approached with a well-thought-out, financially viable scheme at the first time of asking. In my capacity as Head of Debt Advisory at Heligan Corporate Finance, I like to say 'put your best foot forward the first time'.

It's really important to gather, assimilate and present the information in the right way, and having the benefit of a professional corporate finance advisor not only presenting the information but advising on the financial side of the project provides credibility to the proposition immediately for the forward funders.

Within [Heligan Debt Advisory](#), we have our own dedicated property finance team whose specialisms include these three areas below, which allows us to project manage a transaction throughout the full process and provide our experienced advice:

- Understanding the aims of developers and investors from the immediate to the longer term strategic vision, including the wider picture across multiple development sites.
- Transforming all the above into specific risk management strategies and financial models in a format that investors require and understand.
- Continuously updated and expert property market knowledge which ensures access to key industry players on both the development and funding side.

If you are a forward funder looking for well-thought-out and presented schemes, or a developer looking for a forward funding partner, we would like to hear from you. For the developer, if it turns out the forward funding market isn't the right way for you, there are other routes such as JVs or equity partners. For forward funders, if you're looking for a specific type of scheme to fund, we have the ability to source these transactions for you as well.



Sam Lewis

Director, Debt Advisory,
Corporate Finance

Impact on developers

Residential & living sectors

The residential development environment remains fraught. Benchmark construction costs are now estimated in the range of £2,300 to £3,500 per square metre, depending on location, design quality, and site constraints. We have recently observed that for premium sites, minimum costs may begin near £2,900/m².

Small and medium developers are under particular strain: they lack deep land banks and scale advantages, so cost volatility hits them harder. The construction pipeline has been cooling, with weak planning starts and slower main contract awards. Meanwhile, rental growth remains healthy in the living sector: the Build-to-Rent / institutional “living” market saw rent growth of 7.7% year to March 2025, well above its long-term average.

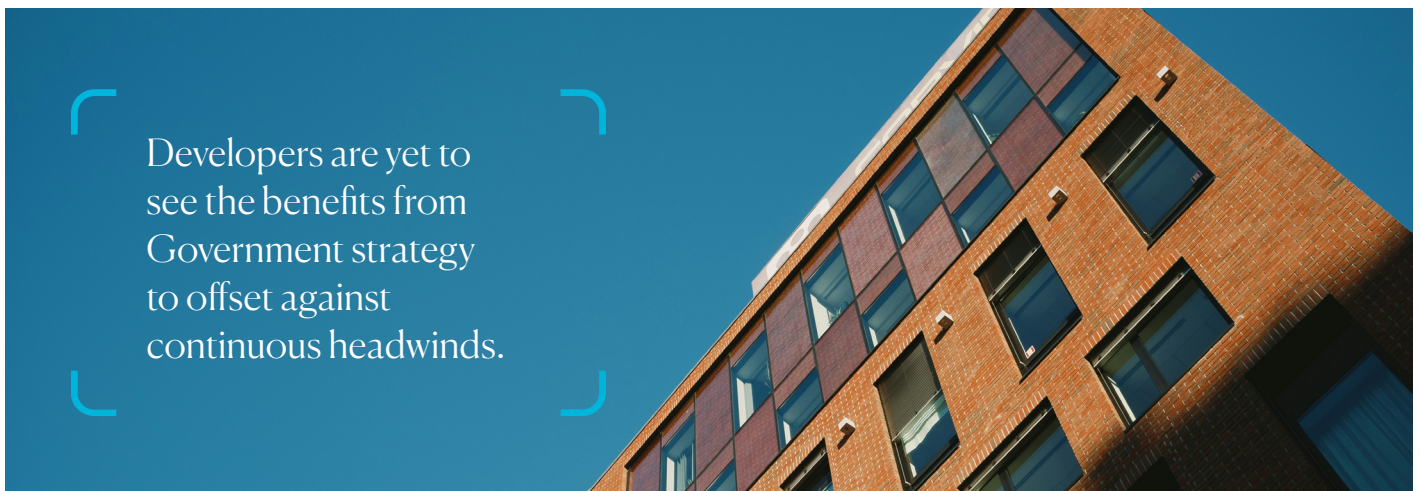
In a positive sign, new housing registrations with the NHBC rose 4% in Q2 2025, especially in the private sector, suggesting pockets of confidence. But regulatory friction persists: the Building Safety Regulator’s gateway system continues to reject over two thirds of Gateway 2 applications, delaying project flow. Developers are actively avoiding projects that require Gateway 3 applications.

Smaller players may find relief via the new National Housing Bank, which offers access to longer-term, project-friendly finance, reducing reliance on short-term bank debt.

After a recent slow resurgence, the PBSA market is now gaining momentum as availability of institutional funds accelerates.

Student housing remains resilient. Unite Group’s agreement to acquire Empiric Student Property in a £600 million transaction will create a combined platform of ~75,000 beds, one of the UK’s largest. KKR’s £230 million purchase of a 2,179-bed, seven-asset portfolio and QuadReal’s £500 million acquisition of ~3,500 beds from Apollo highlight continued institutional appetite. Debt markets are also active: Maslow Capital’s £500 million financing facility represents one of the largest single-lender commitments in PBSA to date, backing new development.

Developers are yet to see the benefits from Government strategy to offset against continuous headwinds.





Commercial property

Commercial real estate is in a cautious recovery mode. Offices are showing a more polarised market: prime central London space has posted rental growth (e.g. double-digit gains in some submarkets), while secondary stock lags due to hybrid working and demand compression. The “flight to quality” is very real, tenants are willingly paying 60-70% more per square foot to secure modern, well-amenitised offices.

Industrial / logistics remains the standout. E-commerce continued to drive demand in H1 2025, and modern warehouses and high-spec logistics space remain tight. Developers who can deliver automated, scalable facilities are commanding strong tenant interest.

Retail is more mixed: structural pressures persist, but Q1 2025 saw retail properties post the strongest total returns among major sectors (~2.8%), led by shopping centres and retail warehouses. However, the looming EPC challenge is serious: an estimated 80% of commercial buildings may become effectively unlettable by 2030 unless they upgrade to A/B standards.

Across all commercial development, a serious impediment is the disconnect between lender valuations and developer pro formas. Lenders are anchoring valuations to past deals, while developers are projecting forward recovery, particularly in regeneration or mixed-use schemes. This valuation gap is pushing many developers toward alternative finance, stretching timelines, and increasing risk premia.

The broader real estate market in the UK still shows pockets of strength, with total return performance rebounding. Over the 12 months to February 2025, UK real estate recorded ~8.1% total return (with retail and industrial leading). Capital value growth remains modest, ~2.1% all-property over the same period, largely driven by income returns.

Logically, the sectors with stable cash flows and reversionary upside (e.g. living, industrial, well-located offices) are attracting capital, while secondary and “value-trapped” assets are being discounted. Liquidity remains patchy, especially for large tickets or office assets needing repositioning. Because valuation divergence is pervasive, developers with high leverage or weak sponsor strength are increasingly pressured. Some are being forced to sell stakes early, defer phases, or negotiate joint ventures with capital partners.

Investors may also push for more ESG / energy efficiency upgrades, especially in retrofit plays or repositioning projects, which adds cost but is becoming expected in due diligence. In short, the capital markets are rewarding conviction, certainty of income, and clarity of repositioning strategy, but penalising overreliance on optimistic upside or speculative assumptions.

Prime sites with strong covenants are in demand as new financial solutions emerge to bolster activity.

Outlook & conclusion

The UK property sector remains at a crossroads: policy stimulus is bolstering structural ambition, but deep challenges and execution risk remain. The government's flagship efforts, such as the expanded Affordable Homes Programme and the National Housing Bank, create scaffolding for scale, though success will hinge on delivery and institutional capacity.

On macro fundamentals, momentum is modest but stabilising. Forecasters now project full-year growth around **1.2%** for 2025. Still, business investment is under pressure, the CBI and BCC flag weaker capex plans driven by cost and sentiment headwinds.

Housing supply remains a critical constraint. In England, new build dwelling completions in Q2 2025 were about **34,990**, slightly down from the prior quarter, and starts stood at 29,490, up modestly. Meanwhile, sector forecasts suggest completions of **160,000-170,000 annually** under current policy, well short of the 300,000+ target.

On interest rates, markets continue to expect moderate easing, with the base rate likely to fall toward **3.75%** by year-end. But persistent inflation risks – highlighted by Bank officials urging caution – could slow cuts or delay them.

Regionally, the outlook is diverging more sharply. The Midlands, the North, and Scotland are expected to lead development growth, aided by lower land values, more development appetite, and less severe affordability constraints. London and the South face steeper hurdles: tighter building-safety regulation, land scarcity, and high construction costs limit upside, despite ongoing London Plan targets (e.g. 88,000 new homes annual goal under consultation).

Key strategies for Developers

1. Strengthen lender partnerships, ensuring transparency and alignment to manage revaluation risk.
2. Explore alternative capital – family offices, specialist debt funds, institutional partners – to bypass constrained bank financing.
3. Form alliances or joint ventures to pool resources, especially for large or mixed-use schemes.
4. Use pre-sales, rent/lease guarantees or early commitments to buffer cash flow and reduce end-risk.
5. Maintain ruthless cost control – optimise specifications, challenge value engineering, and run intensive competitive tendering.
6. Tilt exposure toward more resilient submarkets – affordable housing, life sciences, retirement living, retrofit conversions.
7. Adopt nimble exit or hold strategies: continuously reassess whether to sell, hold, reposition, or phase delivery in light of market shifts.

In sum, the sector's trajectory over 2025-26 will likely be defined by a fine balance: successful translation of policy intent into real delivery, alignment of capital to the strongest sub-markets, and adaptability under macro uncertainty. Execution, not ambition, is the ultimate differentiator.



About Heligan Debt Advisory

Heligan Debt Advisory specialises in structuring bespoke financing solutions for property development projects ranging from £10m to £100m. With deep expertise and an extensive network of lenders and private debt funds, we provide tailored guidance to clients navigating growth, restructuring, or fresh funding strategies.

Whether you are looking to secure capital for a new development or refinance an existing project, our team is here to support you with strategic, results-driven advice. If you are seeking funding solutions for your project, please do not hesitate to get in touch.



Sam Lewis
Director



Mike Howell
Manager



Ben Robinson
Associate Director



Harry Spencer
Senior Analyst



Sam Lewis
Director, Debt Advisory, Corporate Finance
sam.lewis@heligangroup.com

Heligan Group
24 Upper Brook Street
London
W1K 7QB

St Philip's House
4 St Philip's Place
Birmingham
B3 2PP