HANDELSBANKEN VOLUME 4

Property Investor report

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Handelsbanken

Introduction

Optimism remains...
...but for how long?

Chris Teasdale
Chief Branch Officer

Welcome to the fourth edition of Handelsbanken's annual Property Investor Report. It comes at a time of significant change for the property sector against a backdrop of major upheaval in the global economy. A combination of geopolitical shocks, inflation - and the efforts of central banks to control it via interest rates - as well as a swathe of new legislation affecting landlords, have all changed the landscape for the UK's property investors.

And yet as our research shows, enthusiasm remains undimmed:

- Over half the investors we asked plan to increase the size of their portfolio over the next 12 months
- Commercial property has become significantly more attractive, with even more investors anticipating demand growth
- Over half are planning to increase their exposure to offices and retail.

Interest rates are less of a concern for 70% of our panel which may be explained by the fact that rates have eased somewhat since the last Property Investor Report.

We see in the survey results, and know from colleagues in our branches around the UK, that appetite for different asset classes varies between — and sometimes within, regions, so it's vital that investors seek advice from experts who have a deep knowledge of each market. On that note, we see that London is once again riding high, the most desirable region by some way after last year trailing regions such as the north-west of England.

Some of the most interesting outcomes are around upcoming legislation. Changes to the law such as on inheritance tax, Renters' Rights, and EPC ratings, are largely either welcomed or judged to be having no impact – contrary to the fears of many. I was encouraged to see investors believe that tenants recognise the value of a property that benefits from being more sustainable and are willing to pay a higher rent as a result.

Overall, the results of this year's report show an industry that still has plenty of optimism and potential, even in the face of uncertainty, challenge, and change. Whatever the wider economic backdrop, the good news is that this is still a sector with plenty of appetite for growth.

Overview

For disciplined property investors and professional landlords, real estate continues to offer robust investment opportunities and relatively attractive, long-term returns.

Even in mature sectors such as offices, investment capital has consistently flowed towards top-tier assets or well-defined redevelopment and refurbishment projects, including mixed-use facilities. Similarly, established asset classes like residential, and industrial properties remain in high demand, especially for well-located properties. Additionally, niche markets such as student accommodation, hotels and leisure, and healthcare are evolving and growing, attracting a diverse range of investors.

While many of our survey respondents expressed optimism about the year ahead, the UK property market is far from immune to social, regulatory and political challenges and that means other hazards could emerge. We may yet see the impact of recent turbulence resulting from President Trump's trade tariffs in next year's report for example.

In such a fluid and uncertain environment, investors will focus on tighter cost and capital management, optimising portfolios and cash flow, and collaborating with partners who understand their needs.

7%
I will decrease the size of my portfolio

15%
I will dispose of all my properties

24%
I will neither increase or decrease the size of my portfolio

54%
I will increase the size of my portfolio

Source: Handelsbanken Property Investor Report market research, March 2025. Figures subject to rounding.

James Sproule
UK Chief Economist

"Like any investment class, property has advantages and constraints, and any investor must be aware of these. Property transactions are invariably more expensive and take longer than investing in stocks and shares, meaning they're attractive to investors looking for longer-term returns."

Methodology
and respondent demographic

Handelsbanken commissioned research in Q1 2025 through independent research company Pure Profile among a panel of 200 real estate investors, property management professionals and either residential or commercial landlords across the UK.

Approximately one-fifth **(19%)** of respondents had between 5-15 investment properties, **18%** owned between 15-25 properties; another **18%** owned between 25-50 properties, and **47%** owned more than 50 properties (figures subject to rounding). Just over half **(51%)** had a total portfolio worth up to £5 million, **47%** had portfolios valued between £5 million to £10 million, and **2%** had portfolios more than £10 million.

Regarding underlying asset classes (panellists could select multiple classes): **61%** included Purpose-Built Student Accommodation (PBSA) assets in their portfolio, **57%** had HMO student lettings; **53%** had offices; **53%** had industrial properties, **24%** had non-student lettings HMOs, **39%** had retail properties, **30%** had leisure & hospitality assets, **16%** had healthcare properties, and **14%** had static park homes assets.

Section 1

Market outlook and sentiment

Despite numerous internal and external shocks, the UK property sector has demonstrated remarkable resilience over the past few years.

For the 12 months to March 2025, the ONS reported average UK **private monthly rents increased by 7.7%**, rising to £1,386 in England, £792 in Wales and £1,001 in Scotland. Average **UK house prices rose by 5.4%**, reaching £268,000.

Professional property investors understand that the UK real estate market is far from homogenous, with different sub-sectors facing various risks and opportunities. Our latest survey revealed a generally positive sentiment, though a degree of greater caution was also evident.

"We continue to see customers looking at diversifying their asset base to include office space. Whilst hybrid working arrangements continue to operate there is still demand for high quality office space with strong transport links."

Dani Coe
Branch Manager, Leamington Spa

More than half (54%) of the 200 professionals we surveyed indicated plans to expand their portfolios over the next 12 months. However, around a quarter (24%) stated they would either reduce their exposure or dispose of all their properties.

Among our more optimistic respondents, diversification was cited as the primary driver of growth, with **73% looking to diversify geographically** and **75% aiming to increase their exposure to different sectors**.

Conversely, for the less upbeat, the costs of maintaining assets were a key concern. **76% admitted they could not afford to upgrade certain properties to comply with new regulations**.

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https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/privaterentandhousepricesuk/april2025#main-points

How do you see the value of your portfolio changing in the next 12 months?

Positively, one in seven **(14%)** of our respondents expects a **“significant” increase** in the value of their portfolio – defined as more than a **20% increase** – over the next 12 months, with a further **66% anticipating a “slight” increase** (around 5% in value).

Despite a combined **80% of professionals expecting an increase in the value of their portfolio**, underscoring the strength of the UK property market, these figures are slightly down compared to our previous surveys in early 2024 and 2023.

Last year, almost a third **(31%) expected a “significant” increase**, and in 2023, this was 39%, indicating a gradual shift towards a more cautious mindset for 2025.

- Increasing significantly (+20%)
- Increasing slightly (+5%)
- I think broadly stay the same
- Decreasing slightly (-5%)

> “All property investors should be in it for the long-term and not be impacted by short-term challenges. Looking back over the past five years we have experienced Covid and lockdown, the energy crisis and rocketing interest rates but many of us are still here to tell the tale.”

Handelsbanken Property Investor Customer
Kent

Section 2
Commercial more in favour than residential

Examining the underlying sectors in more detail, confidence in demand for commercial assets has rebounded this year, with a higher percentage of respondents expecting either a significant or slight increase compared to 2024.

Conversely, residential demand expectations have shifted towards more moderate optimism. Most respondents now predict a slight rather than significant increase.

Approximately half (46%) expect demand for commercial property to increase "significantly" over the next 12 months, while only 17% anticipate a significant increase in demand for residential property.

How do you expect demand for the following property types to change over the next 12 months?

	Residential	Commercial
It will increase significantly	17%	46%
It will increase slightly	61%	45%
It will remain the same	22%	10%
It will decrease	1%	0%

Handelsbanken Property Investor Report market research, March 2025. Figures subject to rounding.

Positive sentiment is mixed with caution across all sub-sectors

Diving deeper into sub-sectors, this year's findings reflect the overall sentiment from our study: while many investors are looking to expand in areas such as residential, student housing, retail, healthcare and industrial, there is also a rise in those looking to reduce exposure or sell off assets compared to previous years.

Despite the impact of post-Covid 19 working-from-home trends on the office sector over the past five years, our survey found that more than half (52%) of professional investors and landlords aim to increase their exposure to the sector.

However, 30% of respondents plan to lower their exposure to offices – one of the highest such scores across all sectors – while 18% intend to withdraw completely. The number of those looking to increase exposure is also down 10 percentage points from last year's 62%.

46% expect demand for commercial property to increase **'significantly'** over the next 12 months.

"While professional landlords remain more committed to investment in the sector, that commitment has been tested, with fewer looking to expand their residential portfolio, instead looking to consolidate and we're also seeing a shift in focus towards commercial property assets."

Lucian Cook
Director of Research, Savills

In the six residential sub-sectors we examined – houses, flats, non-student HMOs, student HMOs, PBSA, and park homes – houses and flats were the most favoured, with 54% of respondents planning to invest more in both in 2025.

Sentiment around student HMOs and PBSA assets, however, showed a decline from last year, with a third (34%) of investors planning to withdraw completely from student housing HMOs, up from 22% last year.

Our study's findings align with views from other established market commentators and surveys. The RICS UK Residential Market Survey for March 2025 noted "a further deterioration in sales market conditions, with both domestic and global macroeconomic concerns seemingly starting to weigh more heavily on sentiment. In keeping with this, respondents have turned increasingly cautious on the near-term sales outlook, even if twelve-month expectations are still mildly positive for now."

Looking ahead, in an uncertain market influenced by international geopolitical headwinds, a more cautious and disciplined investment approach may be paramount. Many participants may prefer to wait until the environment – and prices – become more attractive before reallocating into certain sectors and regions.

2 www.rics.org/content/dam/ricsglobal/documents/market-surveys/March_2025_RICS_UK_Residential_Market_Survey.pdf

> There is still strong demand for rental properties both in the professional AST and student letting markets. There was a shortfall in student numbers in the city last year and this has meant that some landlords may have experienced voids, the first for many years. However current projections for the 2025/6 letting cycle are looking positive.

Handelsbanken Property Investor Customer
Bristol

Market factors
Interest rate cuts:

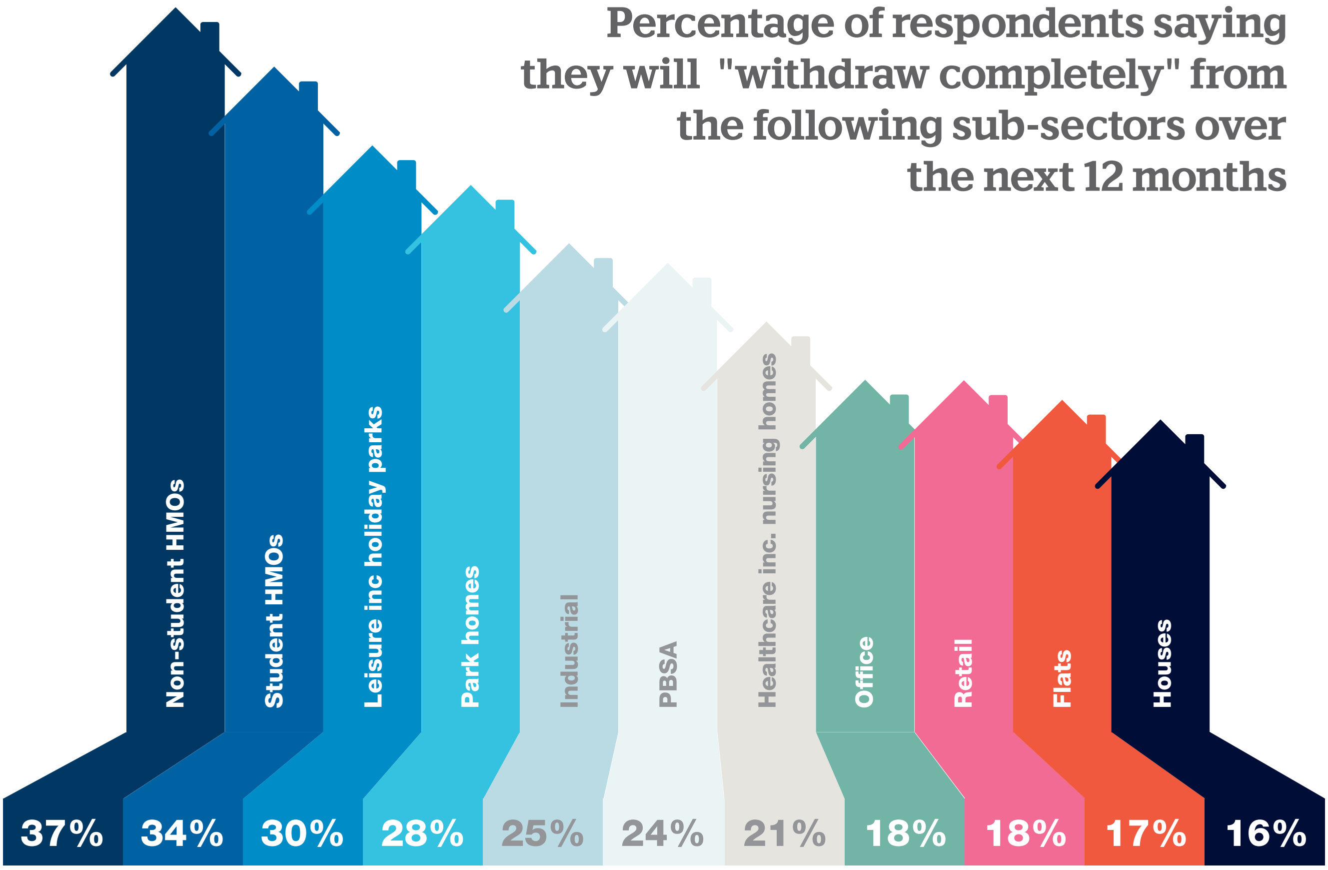
	2025
It is making them more positive about their outlook for the property sector	26%
It is having no impact	70%
It is making them more negative about their outlook	2%
Don't know	2%

Market factors
EPC proposals:

	2025
It is making them more positive about their outlook for the property sector	35.5%
It is having no impact	55.5%
It is making them more negative about their outlook	6%
Don't know	3%

Handelsbanken Property Investor Report market research, March 2025. Figures subject to rounding.

Percentage of respondents saying they will "withdraw completely" from the following sub-sectors over the next 12 months



Source: Handelsbanken Property Investor Report market research, March 2025. Figures subject to rounding

Section 3

Regional investment: London regains its regional crown

This year, London has reclaimed its position as the most attractive region for property investors over a 12-month investment horizon, cited by 46% of respondents. This marks a significant jump from last year when it ranked fifth at 21%, and a return to its leadership position in 2023.

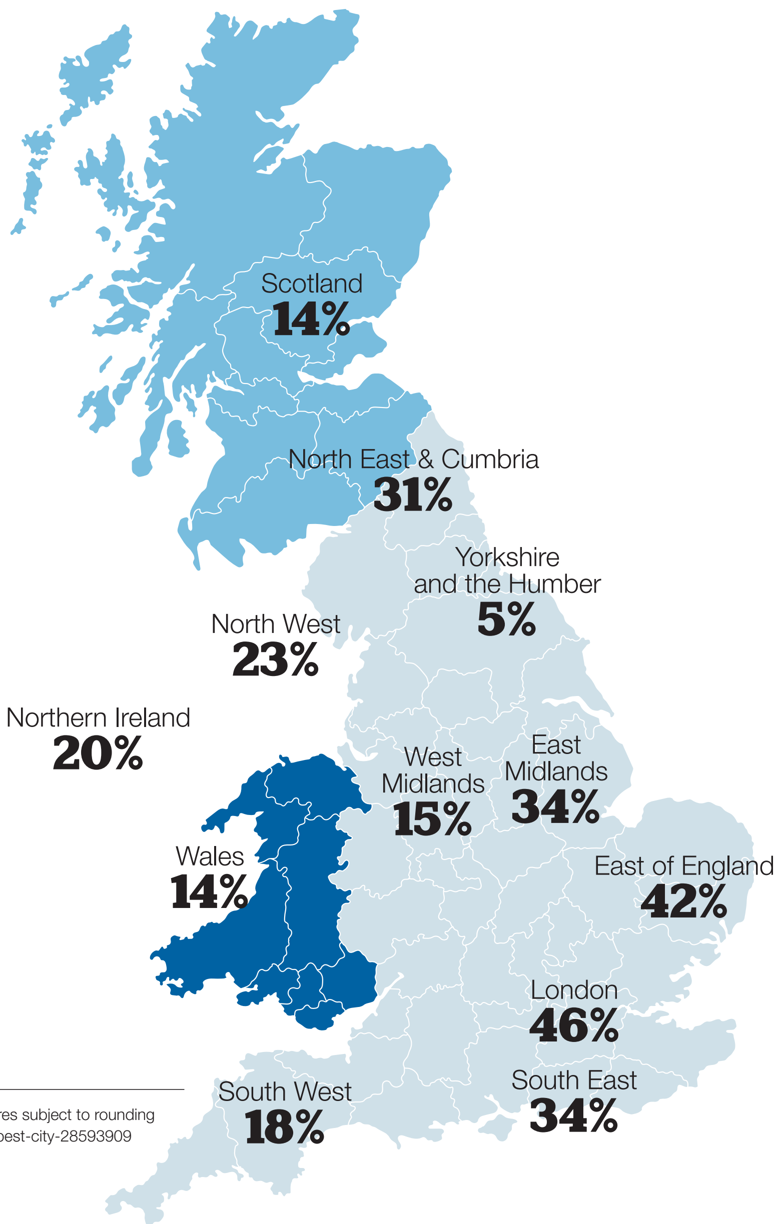
The East of England follows closely behind London this year, cited by 42% of respondents. This region has continued its strong performance after being the most attractive in 2024 and third place in 2023. The diverse East of England region is home to several cities and industries, with Cambridge consistently ranked as one of the UK's best cities to live and work[3].

One hallmark of the UK property market over the past few years has been the rapid increase in property values across many regions. While London and the South East have historically dominated headlines, some of the fastest relative growth has recently been seen in regions such as Wales and the North East. ONS data published at the start of 2025[4] noted that London house prices were stagnant throughout 2024.

While growth in regional values has delivered attractive returns for investors who moved early, some challenging aspects of this growth include the need for – and impact of – rent increases and tenant affordability.

Which UK regions do you think will be most attractive for property investors over the next 12 months?

(Participants could select more than one)



Source: Handelsbanken Property Investor Report market research, March 2025. Figures subject to rounding
3. www.cambridge-news.co.uk/news/cambridge-news/cambridge-named-countrys-best-city-28593909
4. www.cityam.com/london-house-prices-stagnant-in-2024/

Section 4
How 'green' do buildings need to be in today's competitive market?

A few years ago, new energy ratings, broader sustainability, and ESG demands were among the most prominent issues facing landlords and property investors.

Fast forward to 2025, and after the new UK government started consulting on upgrades to existing energy efficiency targets for housing in England, how important are these considerations today?

Our survey this year found that sustainability and related concerns remain significant – particularly from tenants. For some landlords, offering such value-added services may be becoming a competitive advantage.

For instance, demand for heat pumps, solar generation, and other sustainability-related services was mentioned in 77% of tenant conversations. Similarly, electric vehicle charging points and higher Energy Performance Certificate (EPC) ratings were raised in nearly half of tenant discussions.

Perhaps most interestingly, a significant majority (92%) of our respondents this year believe renters are willing to pay more for properties with higher EPC ratings or sustainable features.

Additionally, 36% said reforms to EPC proposals – such as those within the Reforms to the Energy Performance of Buildings regime – make them more positive about the market, while 56% noted no impact. This suggests a growing acceptance of newer 'green' standards from both landlords and tenants.

In your conversations with existing and prospective tenants in the last 12 months, which of the following factors have been raised?

Demand for sustainable property features e.g., heat pump, solar generation etc	77%
Electric vehicle charging point	57%
Demand for a higher-level EPC rating (i.e. C or above)	47%
Bike parking	28%
A smart meter	27%

Source: Handelsbanken Property Investor Report market research, March 2025. Figures subject to rounding

The return on investment for wide-ranging energy and sustainability initiatives has been a major focus for landlords and investors post-Covid. As the market evolves and matures, certain considerations and tenant-led requirements, such as EV charging ports and smart meters, have become more mainstream. How investors account for such spending, both for current assets and new acquisitions, remains a crucial aspect of financial management.

Are you familiar with the Renters' Rights Bill?

17%
Yes, I am familiar with all the changes

76%
Yes, I am familiar with some of the changes

5%
I have heard of the bill but I am not familiar with any of the changes

1%
I have never heard of the bill

What might be the impact of the Renters' Rights Bill?

The Renters' Rights Bill represents a significant change in how landlords in England will interact with tenants. According to the UK government the bill will "transform the experience of private renting, including by ending Section 21 'no fault' evictions. [It] will improve the current system for both the 11 million private renters and 2.3 million landlords in England."

One notable measure in the bill is the addition of the *Apply the Decent Homes Standard* to the private rented sector. This aims to provide renters with "safer, better-value homes and remove the blight of poor-quality homes in local communities". The financial impact on landlords could be substantial, necessitating adjustments to their business plans and investment strategies to accommodate these new requirements.

Our survey found that **over 90% of professionals were aware of the bill's impact**, though only 17% were fully informed about all the changes. Overall, **36% said the bill makes them more positive about the market**, 48% reported no impact and 12% felt more negative.

Source: Handelsbanken Property Investor Report market research, March 2025. Figures subject to rounding

Section 5
Conclusion

In a complex and uncertain world, the UK real estate sector remains a dynamic market filled with energy, opportunities, and risks.

Despite increased concern and caution among many professional investors and landlords, there is still a high degree of optimism and growth. Our survey this year found that 54% expect to expand their portfolios over the next 12 months, while around 80% anticipate slight or significant growth in value.

Professional investors and landlords will be closely monitoring the impact of geopolitical events on the UK in 2025. Additionally, new legislation will require careful management. Tenant-centric issues such as affordability and demands for value-add benefits like EV charging ports will also be crucial.

In such rich, intricate and fast-moving environments, real estate investors aiming to outcompete and succeed need to align themselves with partners who understand their challenges and can help turn risks into returns.

> "The overall stability in market sentiment reflected in the report is welcome. That said, we know that the landscape can shift again - based on events here in the UK and increasingly from a global perspective. However, we see our property investment customers taking a longer-term view across their portfolios which positions them favourably to manage through these cycles. This aligns really well to our own approach of a long-term sustainable outlook."

Gareth Williams
Senior Financial Product Owner - Corporate Lending, Handelsbanken

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For information regarding sustainability at Handelsbanken, please see: handelsbanken.co.uk/en/about-us/sustainability

handelsbanken.co.uk

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