Residential Research – H1 2025

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UK Build to Rent Market Update

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The first half of 2025 saw slightly higher levels of investment than at the same point in 2024, an indication that investor sentiment has improved.

In terms of the transactions that have taken place, we have seen a rise in the number of bidders and an improvement the strength of bids. This suggests investment volumes will grow throughout the remainder of the year.

Longer term, we expect to see greater investment from Local Government Pension Schemes (LGPS) as more and more adopt new residential strategies

As LGPS restructure and grows its financial capacity, we expect to see an increase in its real estate allocation. We estimate that if LGPS were to allocate 15% to real estate, where residential forms a key part of their strategies, this could deliver a total of nearly 80,000 homes.

The push from central Government is clear, and it has identified the potential for LGPS to support housing, infrastructure and regeneration projects.

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Local Government Pension Schemes: the sleeping giant of UK housing investment?

With £400bn of assets, Local Government Pension Schemes (LGPS) could play a crucial role in UK housing investment.

LGPS has been actively investing in UK real estate for decades. Now, there is growing interest among LGPS pools and fund managers to increase investment specifically into housing. There is a natural alignment here. Pension funds require stable, predictable returns over the long term. Rented housing, which continues to be in chronic undersupply, provides inflation-matching income.

At the same time, investing in housing aligns with the ethical and social criteria of funds and Local Authorities. While the conceptual alignment is there, practical hurdles must still be overcome to unlock greater investment.

A key challenge is unlocking capital that is tied up in other real estate assets. A weaker economic climate has led to a less liquid investment market, exacerbated by the repricing of commercial real estate. This is limiting how quickly capital can be reallocated to pursue new residential strategies.

A structural factor is the drive for pension funds to ‘pool’ and form larger, more efficient groups. The UK’s 2025 Pensions Investment Review proposes further consolidation of regional pension funds, enabling greater financial capacity, reduced costs and ultimately greater potential returns for pensioners.

On the one hand, this proposed aggregation, akin to other international markets, should unlock greater financial capacity. But it also means greater uncertainty around when and in what form this will take, which will slow down the implementation of new residential strategies.

How much capital could be unlocked through reallocation?

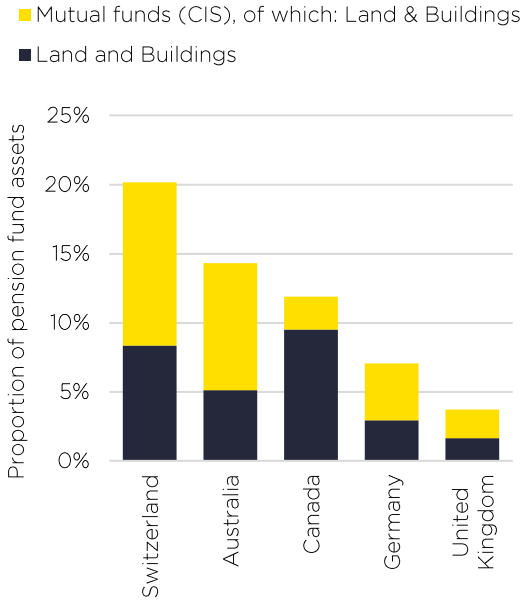
Greater investment into housing from LGPS could reshape the UK investment landscape. LGPS currently hold over £400bn in assets across England & Wales. Small changes to investment allocations could drastically move the dial on investment into UK housing and drive economic growth.

Currently, UK pension funds allocate a very small minority of their portfolios to real estate, often just single-digit percentages. According to OECD data, pension funds allocate just 4% to real estate in the UK, a much lower proportion than in other markets such as Switzerland, Australia and Canada, where pension funds each allocate over 10% to real estate, on average.

By shifting investment allocations towards real estate and housing, LGPS can make a meaningful contribution to national housing delivery targets.

If pension fund allocation to real estate were increased to 15%, more in line with Australia, this would make an additional £45 billion available for UK real estate investment. Should half of this additional capital be directed into housing, it could support the delivery of nearly 80,000 homes.

Figure 1 – UK pension funds allocate just 4% of value to real estate



Source: Source: OECD

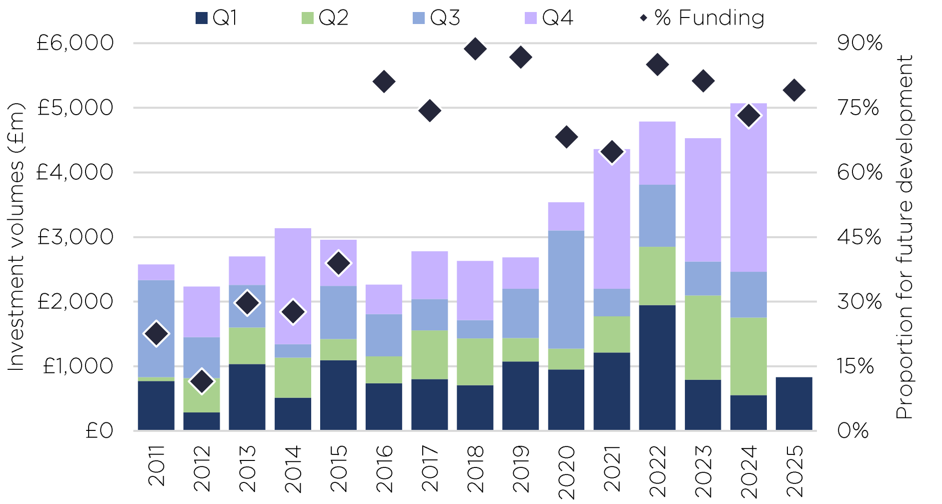
UK Build to Rent Investment

The second quarter of 2025 saw nearly £1 billion invested in UK BTR. This maintains momentum from Q1, where over £800 million was deployed. The half-year total of c.£1.8 billion comes in just ahead of the same point in 2024.

Investment volumes often reflect market sentiment from 12-18 months prior, given the time it takes to agree and complete a deal. The number of bids, and importantly, the strength of those bids, is a timelier indicator of investor sentiment.

Savills received over £5.2 billion of bids in the first half of 2025, across both Multifamily and Single Family housing opportunities. The volume and strength of bids suggest improving investor sentiment, which should translate into growing investment volumes throughout the remainder of the year and into 2026.

Figure 2 – Half-year investment in 2025 slightly eclipses 2024



Source: Savills

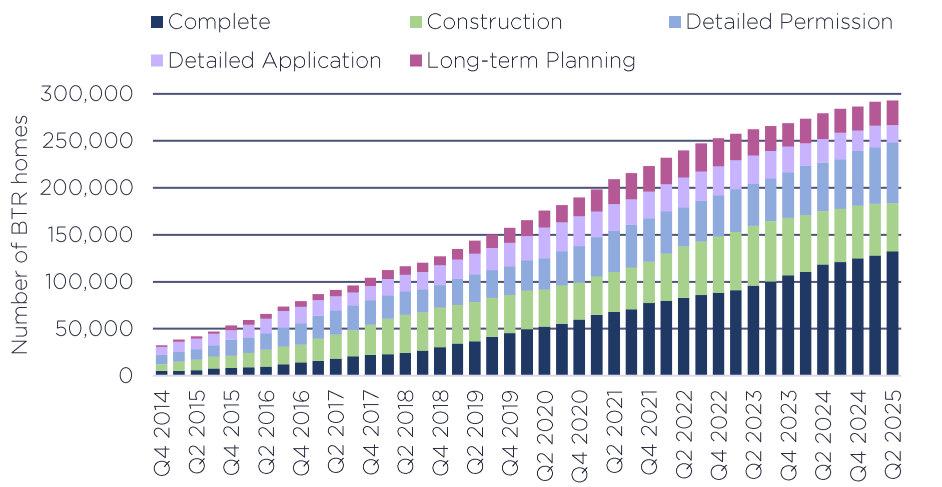
UK Build to Rent Development

The UK's BTR stock now stands at over 132,000 completed homes, up by 12% nationally compared to Q2 2024. There are a further 51,000 homes under construction as well as 110,000 homes in the planning pipeline, including those in the pre-application stage. The total size of the sector now stands at 293,000 homes, up 5% compared to Q2 2024.

Converting the 160,000 BTR homes in the development and planning pipeline into completed homes continues to be a challenge. Both market constraints and regulatory hurdles have hit the whole construction industry, and this can be seen clearly in the BTR starts data. Annual starts in the first half of 2025 were 41% lower than the 2018-19 average.

Developers can't start because their site is either unviable (high build costs, finance costs, planning delays, uncertainty around regulation or exit route) or they have a scheme over 18 metres high that is stuck in the Gateway 2 process. Over two-thirds of BTR schemes that started on site in the first half of 2025 were schemes below 18 metres.

Figure 3 – More than 130,000 Build to Rent homes are now operational



Source: Savills, British Property Federation, Molior

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