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MARKETBEAT
BUILD TO RENT
Q2 2025

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BTR PLAYS KEY ROLE IN UK HOUSING DELIVERY

Build to Rent (BTR) continues to play an increasingly important role in the UK housing market, expanding at a faster rate than any other tenure type. More than 132,000 BTR homes have now been delivered across the country. Regional cities outside London remain at the forefront of this growth, accounting for over 75,000 completed homes, with an additional 104,000 homes currently under construction or in the planning pipeline. Cities such as Manchester have been central to this expansion. In 2024, over half of the city's new housing supply consisted of purpose-built BTR, a trend that is accelerating and emerging in other major urban cities, including Birmingham and Leeds. This highlights BTR's growing significance in meeting housing demand at scale.

In London, where the market has seen a pause in new BTR construction starts in 2025, there are signs of improvement. Easing build and financing costs, combined with upcoming reforms to the Building Safety Regulator, including a proposed fast-track approval process, are expected to reduce delays in planning and approvals, helping to unlock the next phase of delivery.

INVESTMENT MOMENTUM BUILDS

The first half of 2025 was notably active on the investment side, with £1.9 billion deployed into the BTR sector. Key second-quarter transactions included operational multifamily assets such as Slate Yard in Manchester and Solasta Riverside in Glasgow, alongside a forward-funded Single Family Housing (SFH) portfolio between Barratt and Lloyds Living. The outlook for the remainder of the year remains strong, with a significant pipeline of transactions anticipated, most notably L&Q's £1.1 billion BTR portfolio. This wave of investment highlights the continued and growing appetite for exposure to professionally managed, purpose-built rental housing across the living sector.

Mike Gorman
Head of Regional and Capital Markets
mike.gorman@cushwake.com

KEY TAKEAWAYS

- £1.9bn was invested in UK BTR in H1 2025, with Single Family Housing accounting for 45% of deal volumes.
- UK rental growth outside London averaged 2.3% in the year to June, down from 7.3% last year. London rents fell 1.2%, a smaller decline than in previous months, with signs of recovery emerging.
- The gap between supply and demand has narrowed due to softer demand, although new rental supply remains below pre-pandemic levels.
- Buy-to-let mortgage lending fell to 8% of new mortgages, below the 10-year average. Average first-time buyers now account for 31% of lending, its highest share in over a decade.
- BTR stock has grown to 132,000 completed homes, with an additional 51,200 homes under construction this quarter, driven by growth in the regions.

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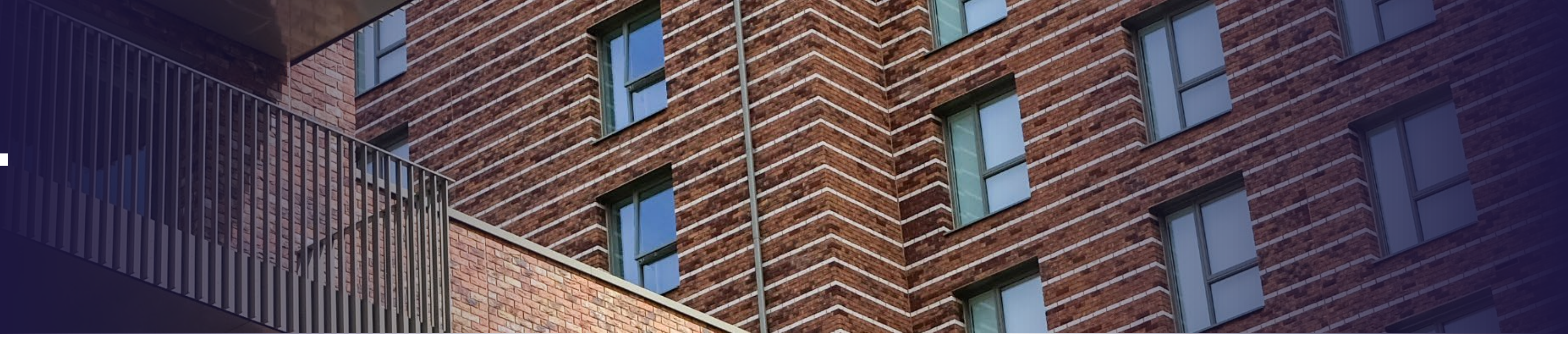

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MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
-16% Rental Demand	▼	▼
17% Homes For Rent	▲	▼
5,140 Q2 BTR Completions	▲	▬
51,200 Q2 BTR Under Construction	▲	▼
2.3% Rental Growth, YOY*	▼	▲

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
5.2% Weekly earnings growth	▬	▬
33.0% *Rent to income ratio	▬	▲

**Average UK exc. London*

Sources: Cushman & Wakefield Research, Molior, ONS, BPF, Zoopla, HomeLet, Realyse, RICS, BOE, Nationwide, HomeViewsPro Dashboard, MSCI RCA.

RENTS RETURN TO PRE-PANDEMIC LEVELS

Rental growth has slowed significantly over the past year, returning to more sustainable levels following the sharp rises of 2022 and 2023. Cities have led this slowdown, shaped by affordability constraints and, to a lesser extent, a rise in new BTR completions.

Outside London, average UK rents rose by 2.3% in the year to June 2025, down from 7.3% in the same period last year. The average monthly rent now stands at £1,124. In London, rents declined by 1.2% over the year to June, following 12.5% annual growth in June 2023 and 1.3% annual growth in June 2024. Despite this year-on-year fall, monthly rental growth has begun to pick up again, with average London rents now at £2,078 pcm.

Across the regions, growth has moderated. Annual rental changes range from -0.3% in Scotland (down from 6.3% last year) to 4.6% in Northern Ireland. In Scotland, the removal of tenancy rent caps has softened headline increases, contributing to slower inflation, alongside underlying affordability pressures.

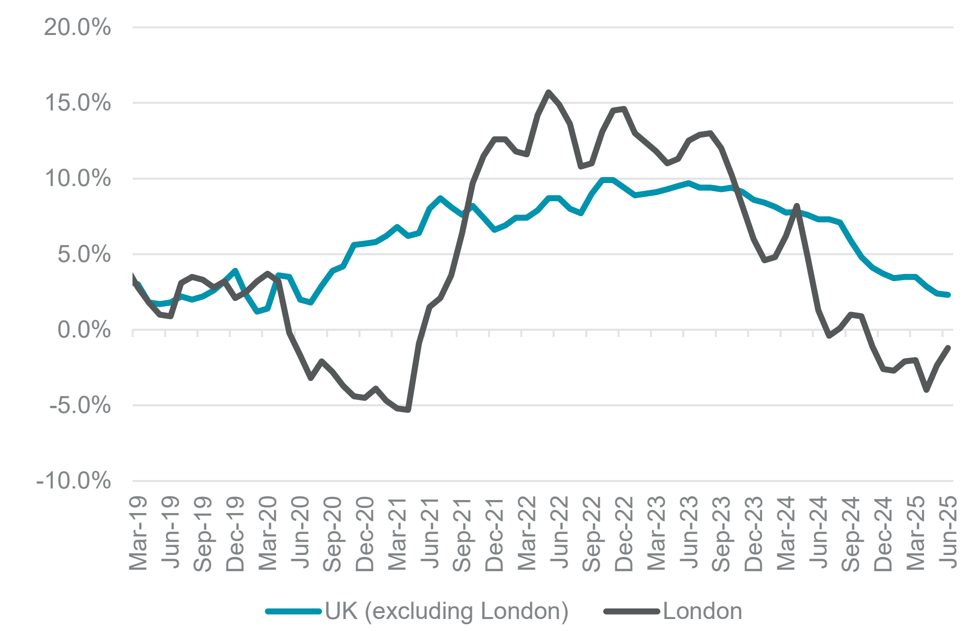
MORE AFFORDABLE RENTAL SUPPLY NEEDED

Supply and demand in the rental market is gradually rebalancing, with demand easing from its post-pandemic peak. Although rental supply has improved year-on-year, up 17% according to Zoopla, it remains 20% below pre-pandemic levels.

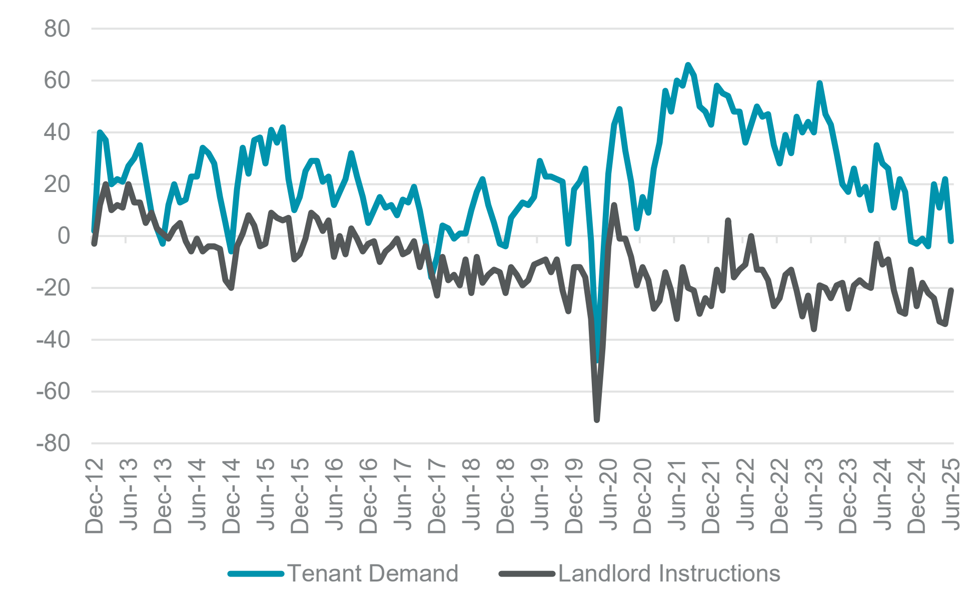
The RICS Residential Market Survey reflects a similar pattern. As of June 2025, tenant demand was broadly flat, with a net balance of -2%, down from +28% the previous year. At the same time, landlord instructions remain firmly negative at -21%, as reduced tax relief, stricter lending criteria, and regulatory pressures continues to push small landlords out of the market.

Improved mortgage access for first-time buyers, is also tempering demand at the upper end of the rental market. Looser affordability rules are enabling higher-income renters to transition into home ownership, relieving pressure on prime rental stock. This trend highlights the growing need for more affordable and mid-market rental options.

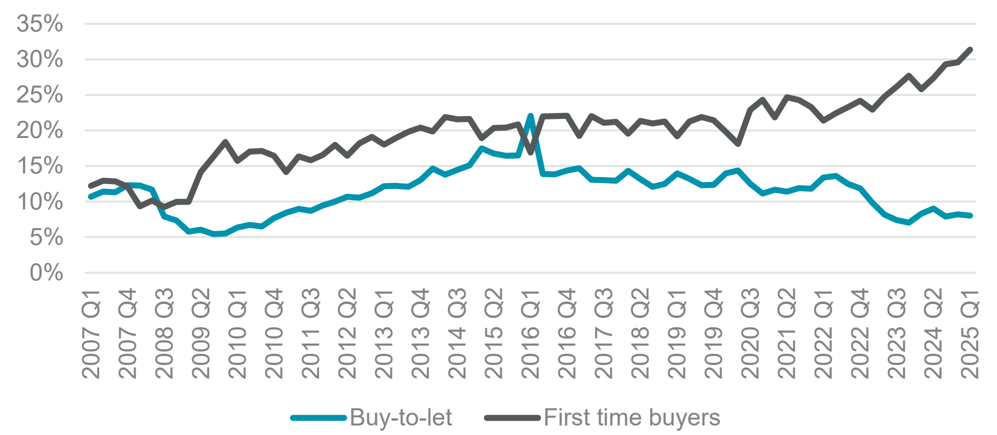
ANNUAL RENTAL GROWTH, UK (EXCLUDING LONDON) AND LONDON



TENANT DEMAND VS LANDLORD INSTRUCTIONS

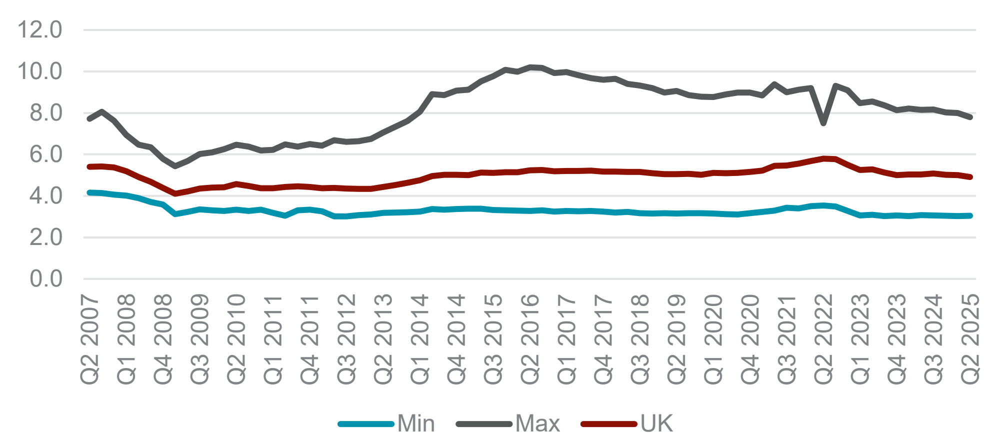


SHARE OF BTL AND FTB MORTGAGES

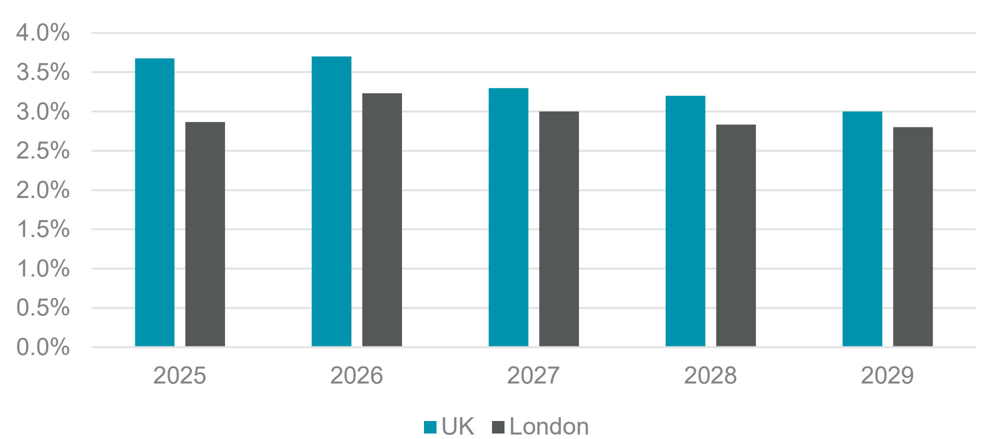


Note: Remortgage and home movers not shown

REGIONAL SPREAD OF FTB PRICE-TO-EARNINGS



RENTAL FORECASTS



BUY-TO-LET IN STRUCTURAL DECLINE

Buy-to-let (BTL) lending has continued to decline, with Bank of England data showing BTL mortgages made up just 8% of new lending, well below the 10-year average of 13.3%. Lending volumes also fell to £6.2bn, compared to the 10-year average of £8.3bn, though there has been a modest upward trend since late 2023. In contrast, first-time buyer (FTB) activity has risen sharply, accounting for 31% of all mortgage lending in Q1 2025, the highest share in over a decade. Lending to FTBs totalled £24.3bn, significantly above the 10-year average of £15.3bn. This shift reflects a more supportive lending environment and improved affordability for owner-occupiers. As traditional BTL investors pull back, the BTR sector is playing an increasingly critical role in helping to fill the gap left in rental supply.

AFFORDABILITY IMPROVING FOR FIRST-TIME BUYERS

UK housing affordability has seen a modest improvement over the past year, driven by earnings growth outpacing house price increases and a slight easing in average borrowing costs. Average earnings rose by 5% in the year to June 2025, while house prices grew by just 2%. Mortgage rates have also fallen to their lowest level since April 2023. Despite this, affordability remains stretched, with the FTB price-to-earnings ratio at 4.9 in June 2025, down from a peak of 5.8 in 2022 but still historically high. Regional differences persist. In London, affordability remains especially challenging, where an FTB with a 20% deposit faces monthly mortgage payments equal to 57% of take-home pay, compared to the UK average of 34.3%. While some regions are seeing better access to finance, many lower to middle-income households will continue to rent due to deposit barriers, and will face strong competition in the rental market.

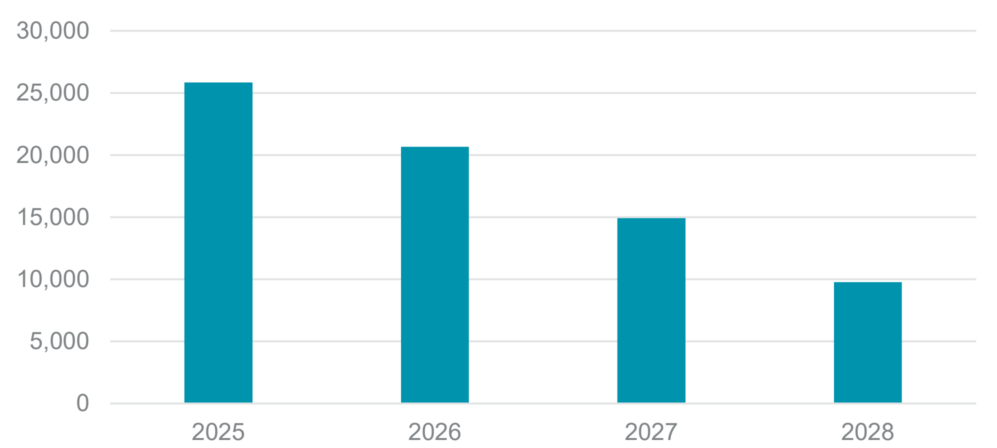
RENTAL GROWTH TO STABILISE

The supply-demand imbalance that has fuelled rental growth in recent years is beginning to ease, with rent increases now at their slowest pace in four years. As previously forecast by Cushman & Wakefield, London is expected to lag behind the national average. Despite a severe shortage of supply, high rents relative to incomes are acting as a natural brake on further growth, though a rebound is anticipated in 2026 as rents stabilise after a period of weaker performance.

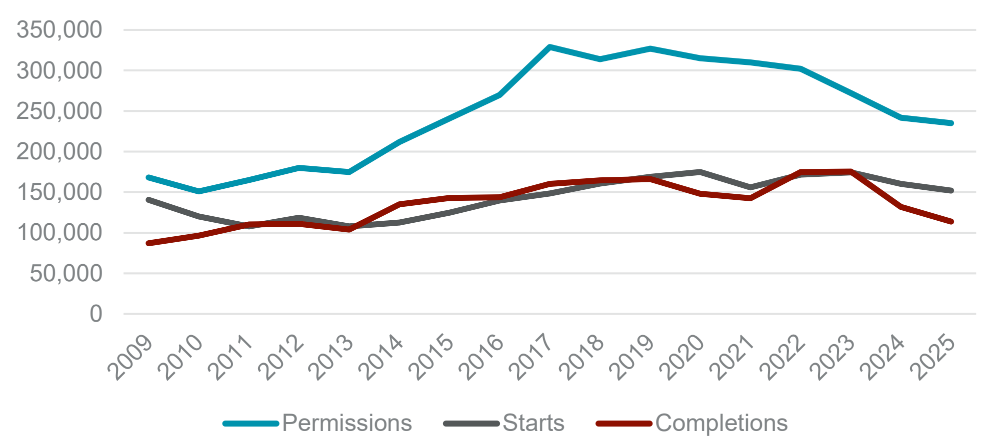
Regulation is becoming a more significant force in the market. Recent tax changes have already prompted some landlords to exit the sector, and the forthcoming Renters' Rights Bill could accelerate this trend. The proposed legislation, which is expected to make it more difficult for landlords to regain possession, introduce stricter rent controls, and increase uncertainty over tenancy length, may further dampen investment appetite and reduce available rental stock. If enacted, these changes could place renewed upward pressure on rents, despite mounting affordability concerns for tenants.

Looking ahead, Cushman & Wakefield anticipate a transition to a more sustainable growth trajectory, with rents projected to rise by 3.7% across the UK and 2.9% in London during 2025.

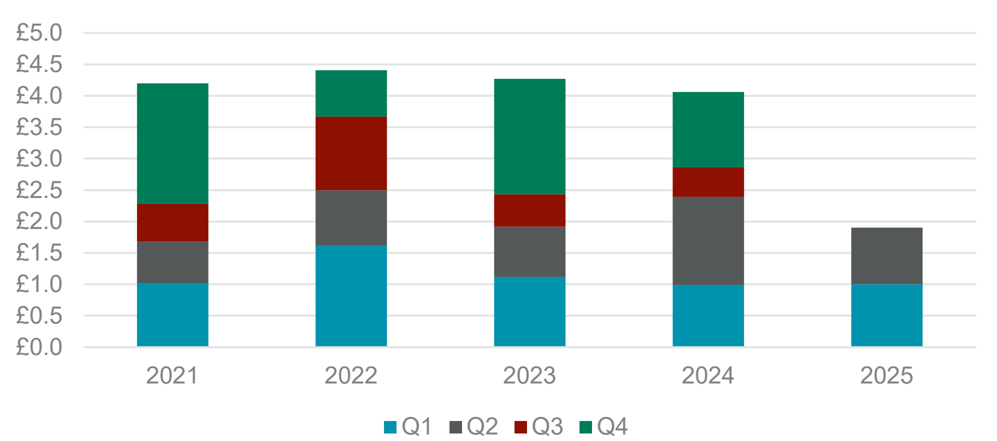
EXPECTED BTR COMPLETIONS



ENGLAND NEW BUILD (ALL TENURES) STARTS, COMPLETIONS AND PLANNING PERMISSIONS



BTR INVESTMENT VOLUMES (£ BILLIONS)



SUPPLY PIPELINE HAS BEEN SHRINKING

While BTR delivery continues, now surpassing 132,000 completed homes across the UK, new development activity has noticeably slowed. As of Q2 2025, 51,200 BTR homes were under construction, representing a 10% decline compared to the same period last year. The sharpest slowdown has occurred in London, where BTR starts have been steadily declining in recent years and have come to a halt in 2025. This pause reflects ongoing challenges including viability constraints, and delays linked to the Building Safety Regulator. Nationally, 8,760 BTR homes have been completed so far this year. Our analysis suggests that total completions for 2025 will remain broadly in line with last year, but are expected to decline in subsequent years.

The wider housing market is also facing similar challenges. Planning permission data for England reveals a drop post-COVID in 2020, followed by a short-lived rebound in early 2021. Since then, a steady downward trend has taken hold, with falling starts and completions from 2022 onward. In the year to Q1 2025, 113,650 new homes were completed, down 14% from 132,130 the previous year. New home starts also fell to 151,840, a 5% drop year-on-year. The long-term pipeline is softening too, with 235,000 planning permissions granted in the year to Q1 2025, down 3% from the year before.

The past few years have been particularly difficult for the UK BTR sector, with debt costs and construction inflation posing major obstacles. However, there are signs of improvement. These pressures are beginning to ease, and with regulatory reforms now progressing, we expect a gradual recovery in new construction starts, helping to offset delays and support the continued delivery of new homes.

BTR INVESTMENT ACTIVITY

In Q2, over £0.9bn of capital was invested into the UK BTR sector, taking total capital deployed in H1 2025 to £1.9bn. Although this marks a 17% decline compared to last year, it highlights continued growth in Single Family Housing, which has shown a marked increase in activity over the past quarters. In the first half of 2025, almost £870 million was invested into SFH, making up 45% of the total deal volumes, up from 38% over the same period last year.

Despite ongoing challenges around development viability, investor appetite remains robust. Development continues to be the main entry point to market, comprising over half of this year's transactions and signaling sustained confidence in the sector's long-term fundamentals. Looking ahead, the outlook for the second half of the year remains positive, supported by a strong investment pipeline, including L&Q's £1.1 billion SFH portfolio currently under offer.

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JAMES DUNNE
Head of UK Living
james.dunne@cushwake.com

MIKE GORMAN
Head of Regional Residential Capital Markets
mike.gorman@cushwake.com

VIVIENNE BOLLA
Head of UK Living Research & Insight
vivienne.bolla@cushwake.com

JONATHAN STICKELLS
Head of UK Specialist Markets Valuations
jonathan.stickells@cushwake.com