Knight Frank

NEXTGEN LIVING

2025

Knight Frank's Living Sectors Investor Survey represents the views of 56 institutional investors active in the sector who account for more than £60 billion in Living assets under management in the UK.

knightfrank.com/research

The quick take

Below we highlight some of the key findings from the survey that will influence and shape the future of UK Living Sectors in 2025 and beyond

KEY TAKEAWAYS

£10 billion

invested in 2024

UK Living Sectors investment topped £10 billion in 2024, accounting for 25% of overall real estate acquisition activity. Robust investment has continued despite a challenging investment market, reflected by a shift in the types of deal structures investors are targeting, as we explore on **page 4-5.**

£45 billion

planned investment over the next five years

By 2029, close to half of investors plan to increase their exposure to the Living Sectors by at least 80% (see **page 4**). In total, our survey respondents alone outlined ambitions to invest a further £45 billion over the next five years.

71%

of investors targeting single family housing

The big story in build to rent (BTR) over the last few years has been the rapid growth of newer subsectors, largely single family housing (SFH). Investors have spent £3.7 billion funding or acquiring SFH since the start of 2023. As we explore on **page 8**, our survey respondents outlined plans to increase exposure in the coming years, with 71% of respondents planning to have invested by 2029.

London, Bristol, Manchester

Top target cities for growth

There is a strategic focus on key urban centres, with London, Bristol and Manchester identified as the top three target locations for investors across the Living Sectors (see **page 5**). Other locations of note in the top 10 include Birmingham, Edinburgh, Bath and Oxford.

39%

of investors targeting seniors housing rental

The BTR segment within senior living remains small as a proportion of the overall seniors market, but it is growing quickly. Within our survey, 39% of respondents said they plan to invest within five years, up from a fifth currently. We expect the number of seniors rental properties in the UK will increase by 150% over the next five years, albeit from a low base (discussed in detail on **page 7**).

65%

of PBSA stock built pre-2012

There is a relatively untapped opportunity in the purpose-built student accommodation (PBSA) market to drive value by upgrading and repositioning existing stock, much of which fails to meet the evolving needs of today's students. Indeed, as we explore on **page 9**, 65% of existing PBSA supply in the UK was built before 2012, which has left a clear two-tier market in terms of age and quality.

The calm after the storm

2025 will mark a new point in the cycle

The Living Sectors are expanding. Institutional investment across the purpose-built student accommodation, build to rent and seniors housing sectors has grown significantly in recent years. Since our first survey in 2019, more than £66 billion has been spent acquiring or funding Living Sector assets in the UK.

In 2024 alone, Living Sectors investment in the UK stood at more than £10 billion, up 2% on last year.

By now, the fundamental drivers are well established; migration, urbanisation, ageing populations, increasing numbers of international and domestic students, and lifestyle choices, are all structural tailwinds that bridge economic cycles.

Today, there are an additional 600,000 renters in the UK versus a decade ago; full-time student numbers have increased by an additional 580,000 over that same time, and nearly 1.8 million people have turned 65 at a rate of 177,000 a year.

Yet, despite the supportive drivers, there are important nuances that investors need to consider. The big question for existing and future strategies is how best to adapt to the changing pressures in the market.

Our survey, now in its fifth year, provides unique perspectives into the opinions and preferences of 56 leading institutional investors representing a combined £60 billion in Living Sector assets under management in the UK. The results shed light on what, where and how much they plan to invest over the next five years. Together, they account for around a third of the investable market.

The results confirm that the prospects for the sector remain strong, with all surveyed investors planning to increase their exposure to the sector in the coming years.

These ambitions will be supported by an improving near-term macroeconomic picture. After a brief pause at the turn of last year, UK growth has generally exceeded expectations, inflation is forecast to stabilise around target levels and the Bank of England (BofE) has fired the starting gun on a new rate cutting cycle. Financing is once again accretive to returns.

However, short-term volatility remains, particularly given the large tax and spend programme announced in the Budget, and there are challenges around planning and building regulations. But there is also a degree of certainty going into 2025 that hasn't been present of late.

This stability should pave the way for an acceleration of ground-up development, repurposing and value-add investment and early entry opportunities into a wider range of markets.

For institutional investors, the Living Sectors continue to represent a well-established opportunity to diversify, reduce volatility and support returns.

£66bn

has been spent acquiring or funding Living Sector assets in the UK since our first survey in 2019

Wembley, London. Knight Frank advised Ares on their c.£750m pref equity deal in 2024

Adaptive, resilient, ready to scale

Investment allocations to the Living Sectors are set to rise significantly

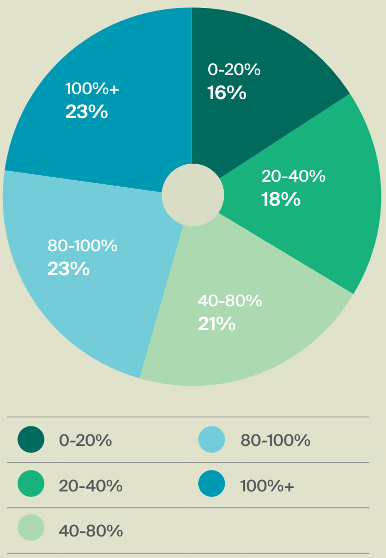
The investment case for Living Sectors comfortably writes itself: across all sub-sectors, supply is failing to keep up with demand. Regulatory, planning, financing, labour and construction cost pressures are some of the top line reasons as to why this is the case.

By 2029, close to half of investors plan to increase their exposure to the Living Sectors by at least 80%, with nearly a quarter planning to double their current exposure. In total, our survey respondents alone outlined ambitions to invest a further £45 billion over the next five years.

This highlights the huge growth potential of the Living Sectors, which remains small in the context of the wider UK real estate universe. We estimate the current value of the student market to be £89 billion, BTR to be £79 billion and seniors £44 billion. For context, the total value of the UK's housing stock currently stands at £8.8 trillion, the UK private rented sector (PRS) is £1.6 trillion, and the commercial real estate market is an estimated £0.9 trillion.

How much do you plan to invest in Living Sectors over the next five years, as a % of total current investment?

% of respondents



Source: Knight Frank Research

NB. values have been rounded and may not sum to 100%

THE PRICE IS RIGHT

Single family housing (SFH) is the most appealing investment prospect over the next five years, followed by multifamily housing and purpose-built student accommodation (PBSA), according to our survey. Seniors housing remains a major growth area, with 45% of investors planning to have exposure to the sector by 2029 – up from 32% currently.

A more positive investment backdrop will give investors more pricing certainty. With yields having moved out across all Living Sectors over the last few years by between 50 and 200bps, the expectation over the next three years is that yields will start to come back in.

Conviction on a tightening of yields is strong across all sectors, with 53% expecting PBSA yields to tighten versus 38% who believe they will stay the same. For both BTR and seniors housing, 58% of survey respondents expect yields to come in.

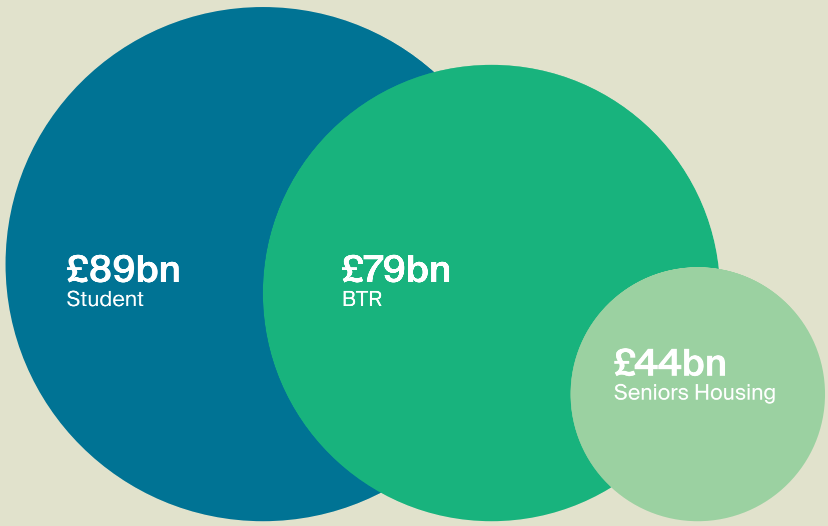
STRUCTURAL SHIFTS

However, the impact of the recent volatile backdrop on investment is evident in respondents' answers. There has been a clear shift in the types of deal structures investors are targeting, with respondents moving up the risk spectrum.

Joint ventures are now the preferred route to market, having overtaken the purchase of stabilised assets from previous surveys. The ability to share risk with an experienced developer to build new assets is attractive in the current environment, while direct development lessens any fire remediation risk associated with acquiring older buildings.

Current estimated value of the sector

Investable assets



Source: Knight Frank Research

A shift in deal structures is something reflected in current investment volumes with alternative pathways to deploying capital having strengthened over the last year. Joint ventures and forward commit deals accounted for 28% of BTR investment in 2024, up from less than 5% in 2022, for example, while land acquisitions were the most popular deal type for both student and seniors housing last year. As the cost of debt continues to come down, we expect more forward funding opportunities will emerge.

RETURN TO CORE

Given the more challenging environment facing investors over the past year there has been a shift in the strategies investors are pursuing, with a focus on opportunistic and value-add strategies.

This is reflected in the return expectations of our survey respondents. More than half (54%) of investors said they had an unlevered return requirement of more than 10% per annum.

That is expected to shift, however, with more core and core+ money coming back to the market in 2025. A total of 68% of respondents confirmed their intention is to invest more in such strategies over the coming 12 months.

Some 52% of respondents said their investment horizon was between three and seven years, with 44% planning to hold assets for longer than that time. Just 4% said their investment horizon was less than three years.

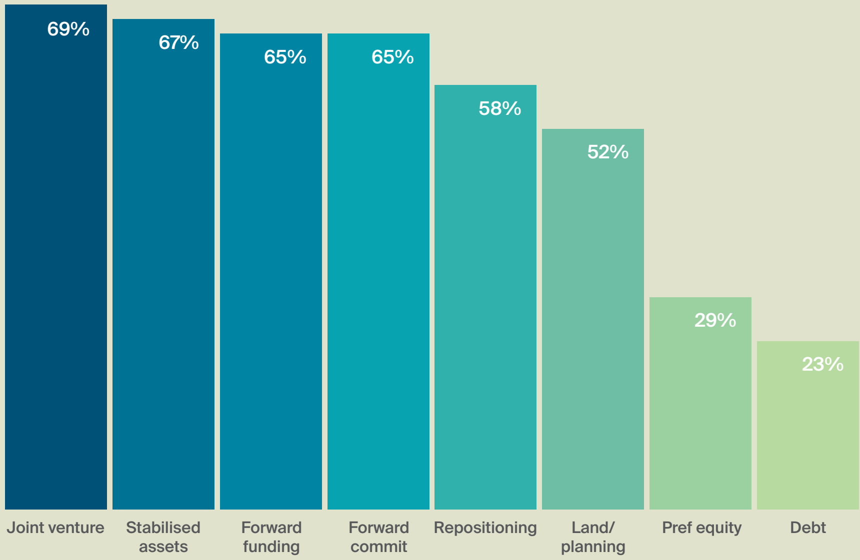
LONDON LEADS BUT REGIONS CLOSING THE GAP

Looking at the market regionally, the most appealing city for investment is London, picked by 66% of investors when asked which locations they are looking to target – mirroring the trend seen in all our previous surveys. This is followed by Bristol, Manchester, Birmingham and Edinburgh.

In total, in 2024, some 76% of Living Sectors investment was in regional markets.

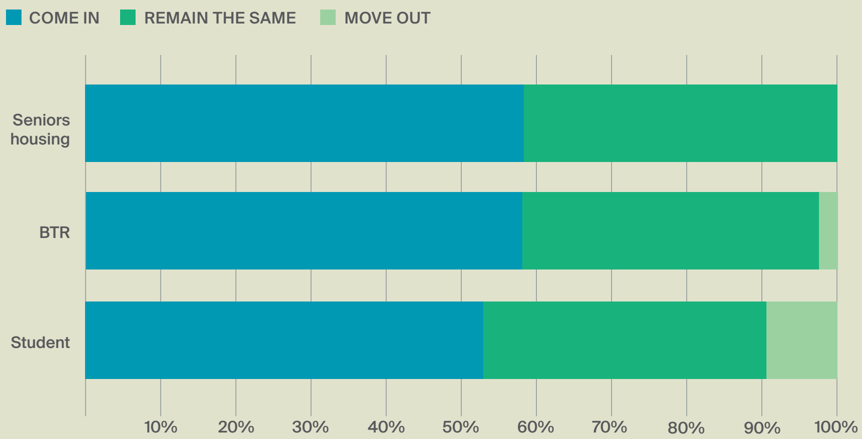
Indeed, while London leads in our survey, there are more opportunities for development in regional markets around the country. This is especially true for single family rental, which is less of an urban product and appeals to families seeking good quality rental homes in desirable, suburban locations.

Which of the following investment propositions are you currently targeting?
Respondents were asked to select all which apply



Source: Knight Frank Research

What do you think will happen to yields over the next three years?
% of respondents (depending on current exposure)



Source: Knight Frank Research

Top target cities for investment
Ranked by number of respondents who selected each city

	Student	BTR	Seniors housing
1	London	London	London
2	Bristol	Bristol	Bristol
3	Manchester	Manchester	Edinburgh
4	Edinburgh	Birmingham	Bath
5	Birmingham	Edinburgh	Birmingham

Source: Knight Frank Research

The next generation

More investment doesn't mean more of the same, with new opportunities emerging

The Living Sectors are becoming more important for institutional investors and more diverse than they have ever been. This is reflected in our survey results with respondents indicating a desire to diversify into sub-sectors within Living as they look to tap into the biggest pools of demand, continuing a trend seen in our previous surveys.

Comparing investor appetite for different sectors against last year's survey results shows a continued commitment to multifamily, PBSA and single family, with the proportion of investors targeting these sectors up slightly or broadly the same.

That said, this year's survey does point to a rebalancing of intentions. At 30%, the proportion of respondents saying they expect to have invested across all sectors within five years is lower than in our 2023 survey, albeit still a notable shift from the 18% of investors who currently invest across all three.

Crucially, we don't take that to mean scaling back, rather this will manifest as a rethinking of existing strategies in the short-term. In particular, we expect to see more diversification within existing subsectors of Living into new markets or geographies, or through repurposing and value-add investment.

18%

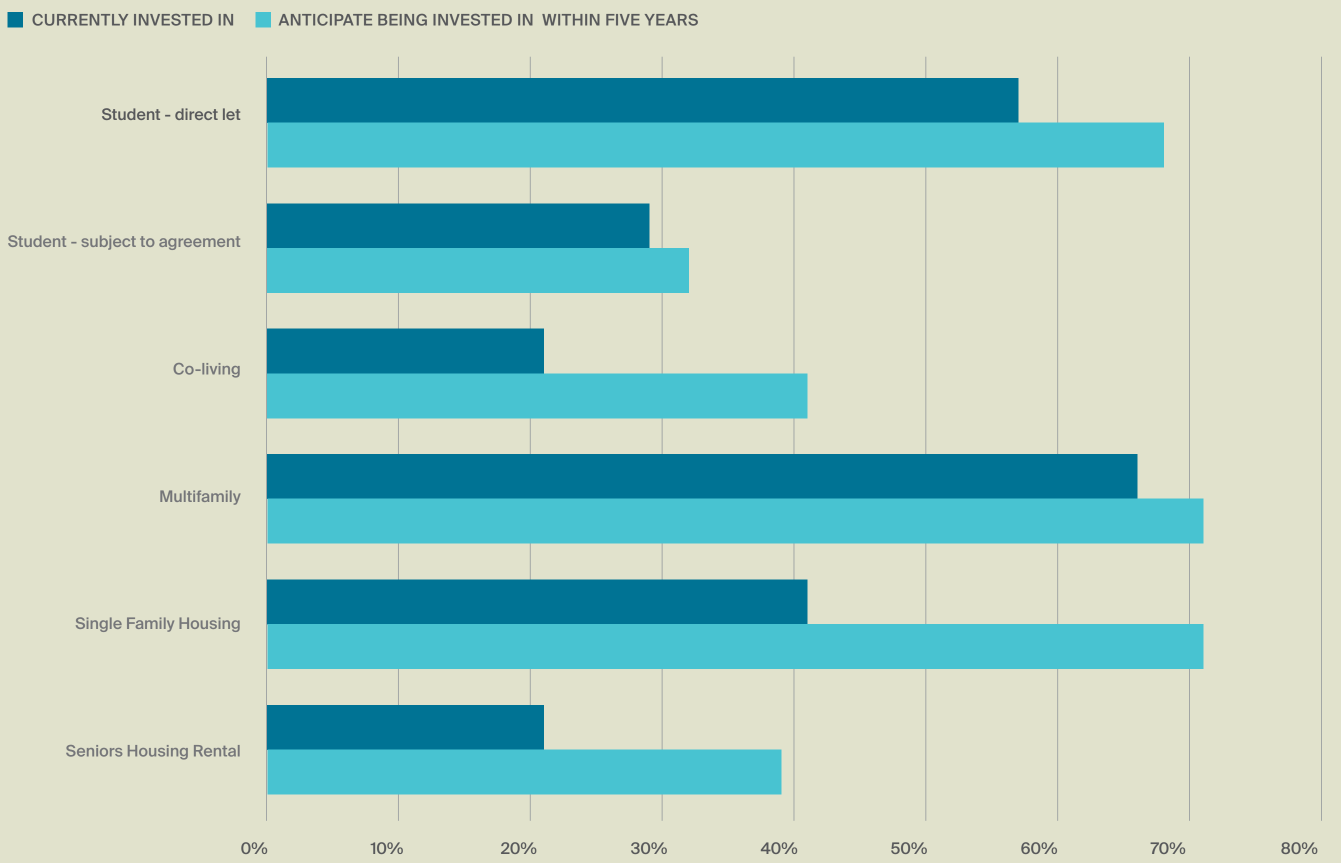
of investors currently invested across all three Living Sectors

30%

of investors expect to have invested across all three Living Sectors by 2029

In which sectors are you active currently and which do you anticipate being active in within five years

% of respondents



Source: Knight Frank Research

Seniors: Rental coming of age

The private BTR segment within senior housing remains small as a proportion of the overall market, but it is growing quickly.

Drawing parallels with the mature North American seniors housing market, where more than 90% of stock is rental, the UK market is showing similar characteristics. This is reflected across customer profiles, operating expenses, and rental levels.

The wider sector has gone through a period of change, as a direct result of a higher cost environment and slower sales market. Some 62% of private operators now offer rental as a tenure option as platforms migrate to a mixed tenure model. By offering more choice and flexibility, the sector is able to cater to a deeper pool of customers, and to accelerate lease up on new schemes. Over the last few years, the first full seniors BTR schemes have opened.

Encouragingly, there is a building evidence base of data in the UK as more schemes open and as rental as a tenure expands. Our recent **Seniors Housing Trading Review**, for example, points to seniors BTR rental growth following similar trend to residential BTR; and occupancy levels of above 95% in existing schemes. Management teams are continuing to invest in their sales teams to optimise lease up.

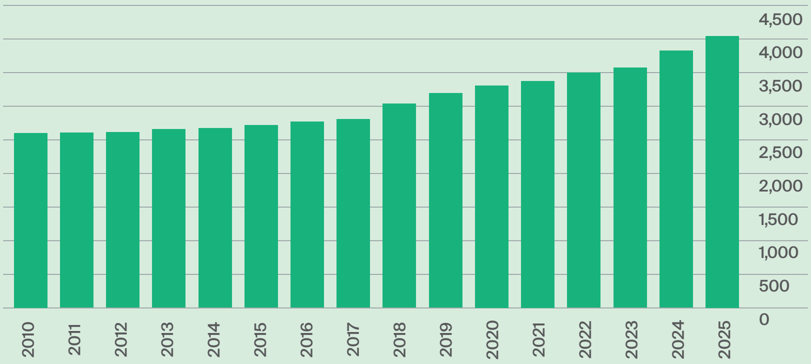
Within our survey, 21% of respondents said they currently invest in seniors housing rental, either within the larger amenities and higher service/staffing Integrated Retirement Communities or within more efficient design and lower service/staffing levels in Retirement Housing schemes. This proportion is expected to climb to 39% within five years.

All of this supports our view that the number of private seniors rental properties in the UK will increase by 150% over the next five years, from around 4,100 currently to more than 10,000. These figures may well be conservative given senior housing rental stock will still only account for 1.2% of the total number of specialist senior housing options. There are currently around half a million seniors currently renting in the residential sector, often in unsuitable accommodation as they age, while around a fifth of care home residents are in good health, but have no suitable alternative.

In the next five years we expect to see a race to scale and brand-building from some of the early movers to create management platforms with operational efficiencies. Good customer experience and a high quality of service will be at the core of all business plans.

Complete Seniors Housing rental stock

Private units only



Source: Knight Frank Research

MARKET VIEW:

Tom Scaife,
Head of Seniors Housing

"Investors have learned so much in last few years around what good looks like. Whether that be around management, or cost and design efficiencies. It means the conversation has moved beyond who the customer and how it varies with tenure. Across the seniors market, voids are low and average lengths of stay are longer than in other parts of Living. We know that health drives choices; affordability, financial sustainability, compassionate staff and diverse activities are important, along with clear and transparent costing. We equally know you can't put a price on community, ease of access to quality services and peace of mind. The first seniors BTR schemes to open have provided expense and revenue data to help support underwriting. Capital is being raised for further business plans which will act as a catalyst to further investment. And management teams will continue their pivot from mixed tenure into seniors BTR. High quality partnerships of operators and developers each playing to their respective strengths will be key to platform expansion. For investors, senior living provides value add returns. We forecast an increase in investors from North America with larger ownerships and track records in the sector. With that language around product may change: Active Adult, Independent Living, and Assisted Living schemes will reflect the range of customer profiles, amenity and service propositions."

BTR: Suburban living

The big story in BTR over the last few years has been the rapid growth of newer subsectors, largely single family housing (SFH), but also including co-living. Investors have spent £3.7 billion funding or acquiring SFH since the start of 2023, for example, accounting for 36% of total build to rent investment over that time. Co-living investment also hit a near record high in 2024.

Survey respondents outlined plans to significantly increase exposure to both SFH and co-living over the coming years, on top of increasing their commitment to multifamily. While just 21% said they currently invest in co-living, for example, this is anticipated to rise to 41% by 2029. Similarly, 41% of respondents currently have exposure to the SFH market, with that figure expected to climb to 71% within five years, the largest expected growth of any of the Living Sectors.

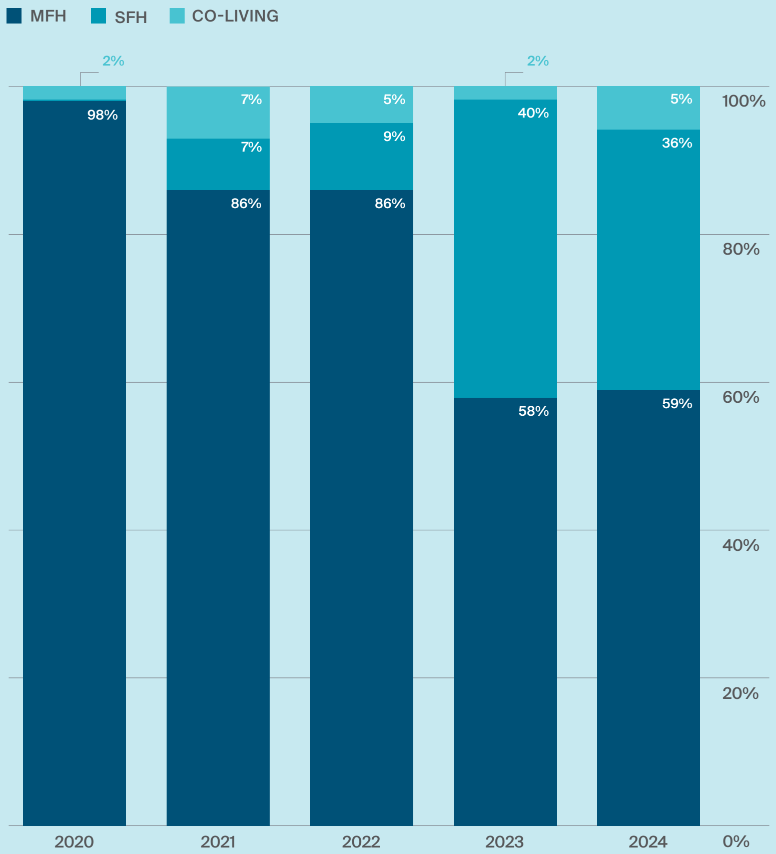
A pivot to SFH reflects the fact that houses and not flats are the dominant residential asset type within the rental sector accounting for around 60% of total rental stock in the UK and, highlighting its growth potential. A weaker private sales market has also acted as a catalyst for housebuilders to sell units to institutional investors. But as interest rates fall back, the sales market will strengthen. This may mean a narrowing of the current discount to market value housebuilders are willing to accept for large portfolio deals (typically 5-15%).

Many housebuilders have, however, established partnership models to work with investors, showing a long-term commitment to SFH.

Accordingly, while just 11% of current complete BTR stock is SFH, by 2030 we estimate that this will have jumped to over 20%.

BTR investment by sub-sector

As a % of total investment



Source: Knight Frank Research

MARKET VIEW:

Nick Pleydell-Bouverie,
Head of Residential Investment

"What was once a niche asset class dominated by a small number of investors and operators, SFH is now attracting many more institutional players, who are bringing with them billions of pounds from leading real estate investors and funds. While the sector's roots are typically in regions such as the North West, where nearly half of today's stock is located, future growth is poised to be more widespread geographically. Top investment targets for the next wave of single-family rental communities include high-growth suburban markets across the South East, East Midlands, South West and West Midlands. While single family is now a crucial part of the market, as build costs flatten this year, we also expect to see a material return to urban build to rent development supported by huge demand pressures. Some 82% of the deals we're currently tracking across the market are for urban multifamily schemes."

PBSA: Universities at the nexus

In the student market, there is a two-tier dynamic in terms of stock. With 65% of existing Purpose-Built Student Accommodation supply in the UK built before 2012, there is a stark contrast between older and newer properties.

Just shy of 260,000 new student beds have been added to supply across the UK since 2012. Over the same period, almost 470,000 full-time students have been added to the university population, exacerbating the demand for modern, high-quality accommodation. This presents a unique opportunity for investors to upgrade and reposition existing stock, driving value and meeting the evolving needs of students.

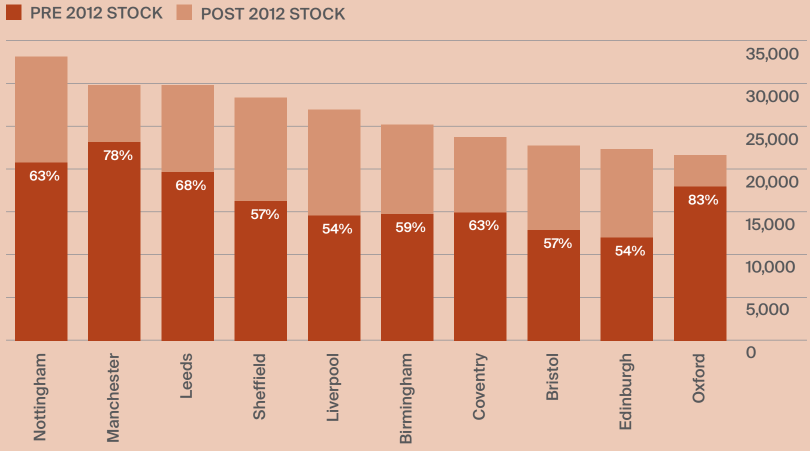
Collaboration between universities and the private sector will be essential. Universities are at the nexus of this, they hold land, but they also hold planning data on the number, demographics, and residential requirements of projected student intakes that enables conclusions to be drawn on future housing requirements.

At a time when university finances are already stretched, insufficient or unsuitable accommodation constitutes a risk to reputations, and student recruitment. Indeed, nearly two thirds (65%) of applicants to university this year said that the availability of accommodation had influenced their decision on where to apply to study, according to the **Knight Frank/UCAS Student Accommodation Survey**, and that less than 70% thought there were enough accommodation options in their chosen city.

Some institutions may take this as an opportunity to work proactively and strategically with local planning authorities and accommodation providers to secure a future accommodation pipeline that matches their own growth ambitions.

Two tier supply market

Regional cities PBSA supply built pre-2012 vs post 2012



Source: Knight Frank Research

MARKET VIEW:

Merelina Sykes,
Joint Head of Student Property

"Accommodation forms a key part of a universities offer to incoming students, both domestic and international. Responses to our ***Accommodation Survey with UCAS*** *confirmed that nearly half of applicants started researching their accommodation options before they had formally applied to university. Getting it right can drive lease up and occupancy, as well as supporting sustainable rental growth. This year, the more challenging leasing market has shone a light on the need to upgrade and maintain existing stock. For universities, outsourcing accommodation requirements to PBSA investors helps to free up their resources and allows them to focus on their core competency of providing the best education to students. For investors, there is an opportunity to add value through capex programmes, while the certainty of a noms agreement is attractive to some in the current market. Partnerships can take many forms. We have seen – and been involved with – examples over the past year of joint venture deals between universities and investors, income strip deals where universities keep control of the land and straight disposals with universities able to recycle capital receipts elsewhere. More opportunities will come forward in 2025."*

Sustainability drives decision making

Considerations around ESG (environmental, social and governance) have risen up the investor agenda

The survey results highlight the importance that investors place on ESG factors as they look to future-proof assets and meet demands from tenants, regulation and their own environmental goals.

As has been the case in previous surveys, a push towards ESG is primarily driven by investors, with 81% of our respondents stating that investors are ‘important’ or ‘very important’ in dictating their approach to ESG. That’s more influence than regulatory change (75%), or residents (59%).

66%

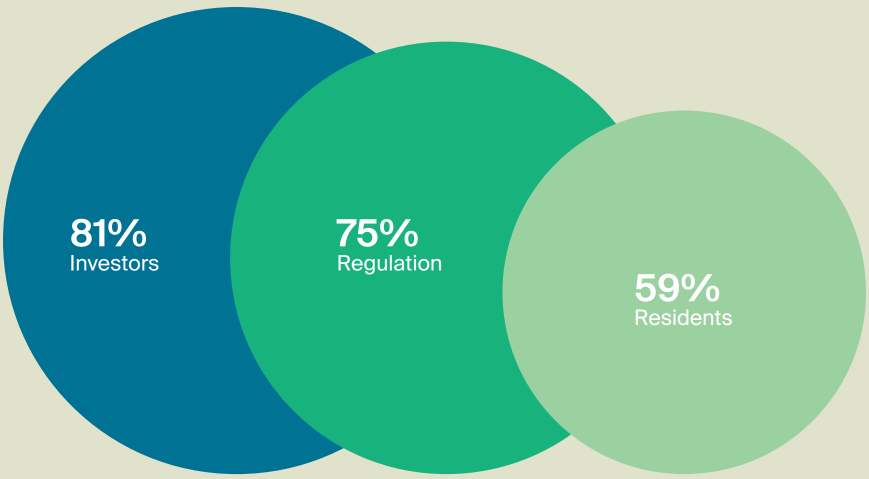
cited EV charging as the feature they wanted for new developments

In the drive toward net zero, we are seeing more investment in sustainable developments. When asked what investors are targeting for new developments, EV charging (66%) was the most cited feature, followed by heat pumps and solar power generation (51%). A fifth (19%) of investors are targeting a minimum EPC rating of A, while 28% look to achieve net zero in operation.

As more investors consider ESG a key criteria in underwriting investment, the demand for, and consequently the liquidity of, buildings with green ratings is likely to increase. Green-rated buildings are more likely to be future-proofed against potential legislative changes, as well as being future-proofed against shifts in resident sentiment and preferences.

How important are the following in driving your investment in ESG

% of respondents selecting 'important' or 'very important'



Source: Knight Frank Research

SOCIAL SPACES

Whilst the ‘E’ element of ESG often garners the most attention, and is critical for operators and investors, the Living Sectors also have an obvious focus on the ‘S’, with far reaching positive social impacts on residents, their families, employees and local communities.

Take PBSA, for example, our research with UCAS into student’s accommodation preferences has found that 61% of new applicants starting university said that their accommodation providers’ commitment to supporting student wellbeing and mental health was important or very important to their choice of where to live. Meanwhile, nearly half of private PBSA residents either agree or strongly agree that it was important their accommodation provider is committed to investing in local community projects.

For seniors housing, a focus on communal spaces where residents can connect and interact is vital for fostering a sense of community. When properly managed, these spaces not only enhance social well-being as well as significantly contribute to residents feeling that they are receiving strong value for money.

> “In the drive toward net zero, we are seeing more investment in sustainable developments.”

PULLING LEVERS

When asked what represented the most significant challenges to sustainable investment in the Living Sectors, 62% highlighted the cost of capital required to make existing buildings sustainable, with nearly half flagging the high proportion of older buildings that are energy inefficient.

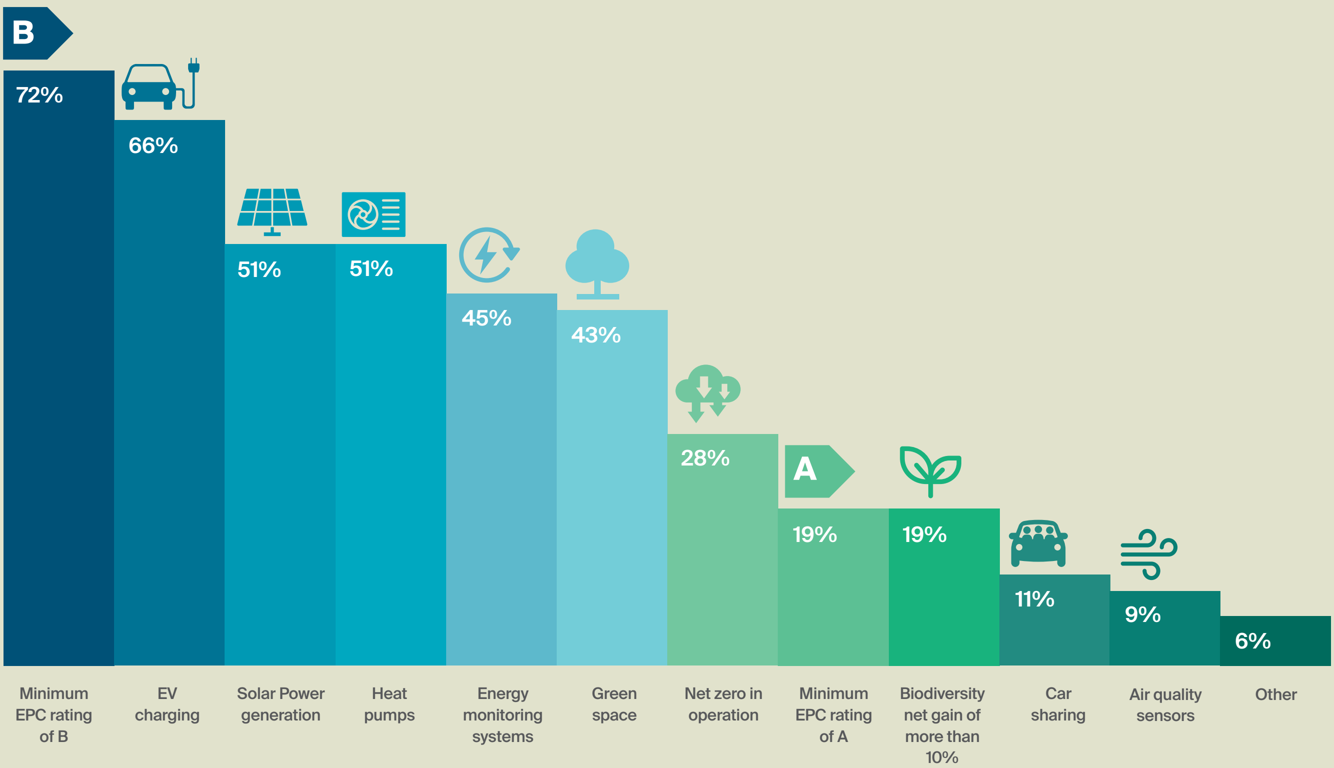
Across the UK, 63% of homes in the private rented sector have an EPC of D or below. A carrot and stick approach will be needed to encourage more action, with 43% of respondents agreeing that a lack of government incentives was a further challenge.

63%

of homes in the private rented sector have an EPC of D or below

Which of the following are you targeting in new developments?

% of respondents selecting 'important' or 'very important'



Source: Knight Frank Research

Affordability, planning and regulation keeping investors awake

While the fundamentals are strong, there are barriers to deploying capital

There is no denying the scale of the ambition amongst investors to increase their investment into the Living Sectors. However, there remain potential barriers to achieving these aims.

When asked what the key factors limiting the growth of the sector are, 81% of respondents highlighted construction cost inflation as the biggest concern, followed by issues around planning (60%).

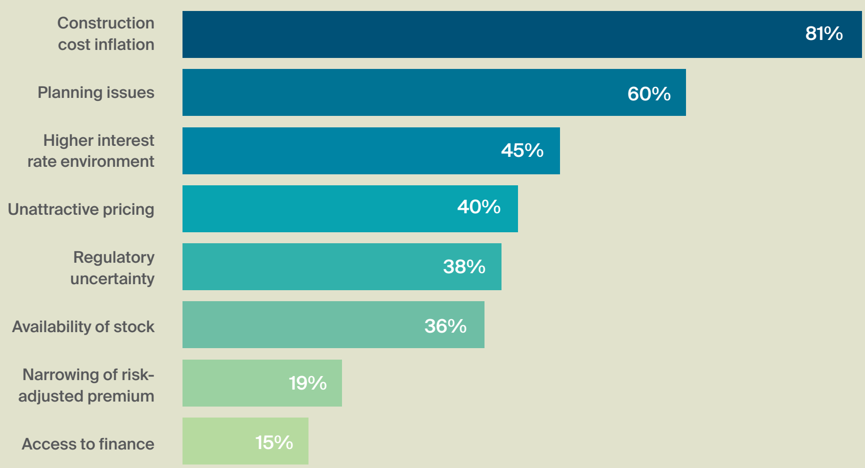
Neither of these issues are specific to the Living Sectors, with the latest data on overall housing supply pointing to a 6% fall in net additional dwellings over the year to March, to 221,070. Last year, the number of homes granted planning permission fell to the lowest level in a decade.

Given the primary route to market for investors remains through development funding or land transactions, the sector is likely to feel the impact of this slowdown with a lag before fresh capital translates into development activity.

Indeed, in London, BTR starts fell to their lowest annual level since 2014 in the year to Q3 2024 with fewer than 2,500 homes starting on site. In the student market, fewer than 17,500 new beds were added to supply in time for the 2024/25 academic year, down from a long-term average of closer to 25,000.

Weaker construction activity over the last year means inflation in material and labour costs is likely to be close to zero for the next year or so, which will help support viability and reduce pressure on margins. That, in turn, will give investors and developers more incentive to take new or stalled projects forward providing a boost to development volumes, particularly in urban areas. Build cost inflation has already been moderating, down to 2.9% in 2024, from a peak of 15.5% in 2022, according to the BCIS. More stability is anticipated in 2025.

What do you see as the key obstacles to the growth of Living Sectors?
Respondents could select up to three



Source: Knight Frank Research

Development will continue to be the primary route to market for investors, but our expectation is that operational deals will steadily increase their share of investment volumes. Yet, with 36% of respondents also citing the availability of stock as a challenge, there is a clear need for further development of new product in many markets.

SUPPLY SHORTAGES UNDERPIN AFFORDABILITY PRESSURES

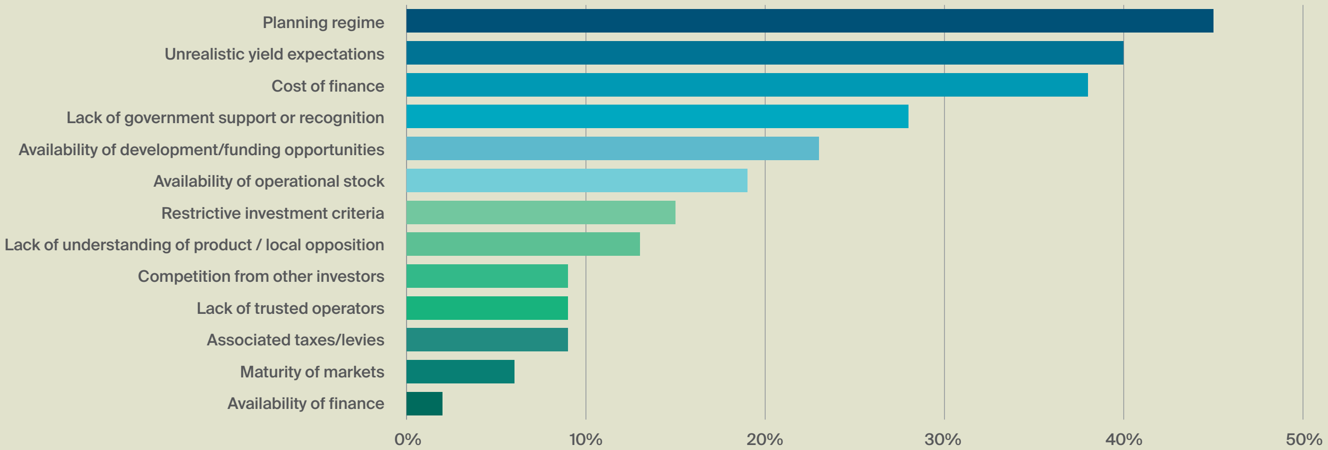
Supply is just one side of the coin, and with this falling short of meeting demand across Living segments, the result has been growth in both house prices and rents. Subsequently, affordability is considered the biggest operational challenge for the market, followed by the potential for new regulation or policy change.

The jump this year is likely to reflect the strong cross-sector rental growth seen over the last few years. Average rents for students living in PBSA increased by 7.6% in 2024, according to Knight Frank's Student Property Rental Growth Model. For BTR, average rents have increased by 25% over the last five years. Although the pool of rental data is limited for seniors housing at the present time, in the inflationary environment we have seen rental growth akin to the wider residential BTR Market.

Rising operational costs (49%) and fire safety requirements (47%) were additional challenges shared across the Living Sectors. Concerns around the overreliance on international students were more specific to the student sector and come in the wake of changes to visa eligibility rules. While for seniors housing a lack of experienced managers, and challenges surrounding staff recruitment, training, and retention reflect its more specialist nature.

What are the key challenges to deploying more capital into the Living sectors?

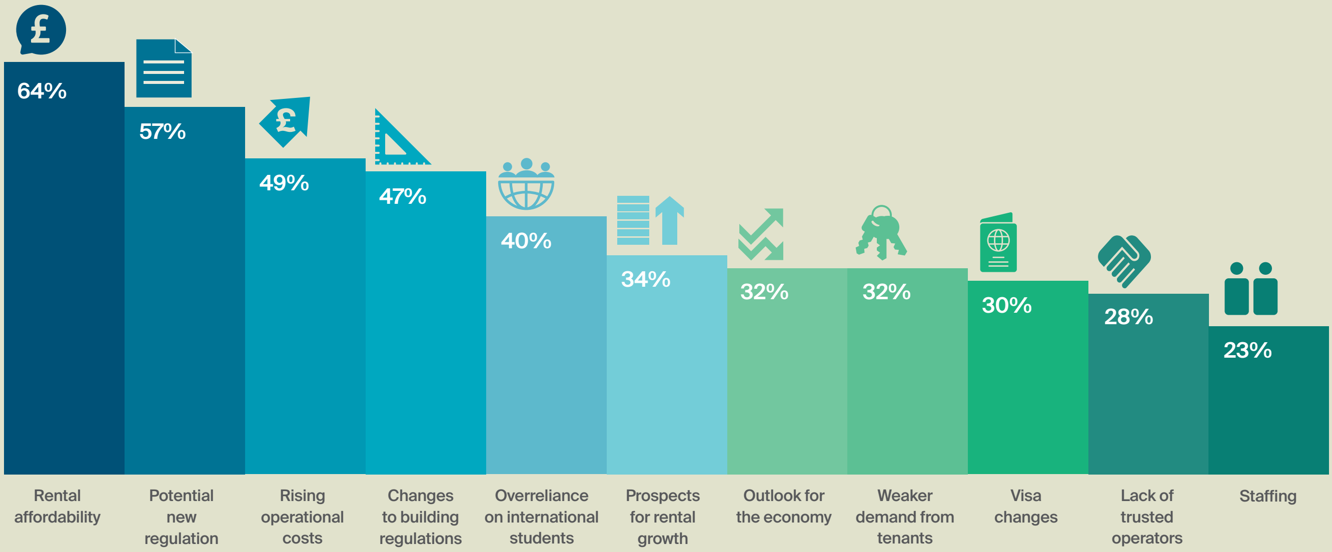
Respondents could select up to three



Source: Knight Frank Research

What are the short-term operational challenges for the market?

% of respondents selecting 'important' or 'very important'



Source: Knight Frank Research

Lenders ready to do business

Challenges in the debt market remain, particularly given the volatile start to the year, but the prospect of further rate cuts in 2025 will improve market sentiment

Despite the opening month of 2025 witnessing the UK governments attempt to soothe bond market nerves, overall debt market sentiment is shifting towards a more positive outlook. Interest rates are on their way down, and this has had a subsequent impact on borrowing costs.

With inflation seemingly under control, rates are expected to continue falling in 2025. Capital Economics currently expects the Base Rate will end this year at 3.75% before falling to 3.50% in 2026.

Investor concerns about financing costs have also eased significantly. Last year, over 60% of respondents to our survey cited high finance costs as a barrier to growth; this year, just 38% still feel this way.

More positivity reflects the fact that debt market liquidity is robust, with lenders increasingly willing to deploy funds. Many lenders, previously conservative with loan-to-value (LTV) ratios, are now offering up to 60% LTV, reflecting their growing confidence. Competitive pricing has also returned, a trend most prominent for the Living Sectors.

Over 55% of respondents agree that debt is now accretive to their investment strategy. Refinancing risks have also eased, as lenders extend existing loans rather than pressuring investors. Strong rental demand continues to support debt serviceability, with minimal loan defaults in the sector.

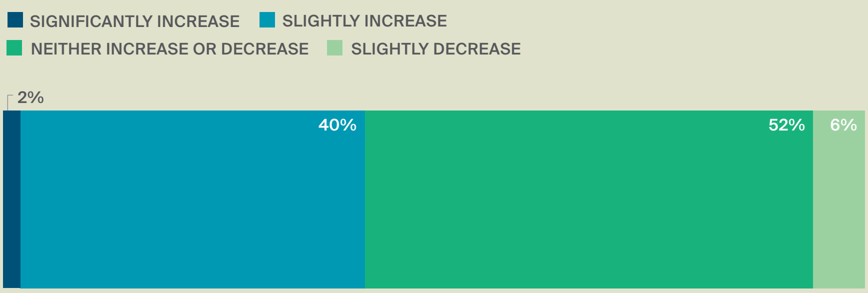
Reflecting this, less than 5% of survey respondents said that any planned asset sales this year were being driven by the cost of finance being too great, while none said they are under pressure from lenders to refinance.

As we look to 2025, 42% of those who responded to our survey expect their requirement for debt to increase next year. Of those planning to increase their financial leverage, 21% are planning to use debt to fund new development and 27% plan to use it for acquisitions. Some 31% are doing so to enhance returns.

Lenders are expanding their focus to include emerging sub sectors like seniors housing and co-living and structuring flexible terms to support business plans. For seniors, prime yields sit outside of the rest of the Living Sectors making leverage more accretive. Non-bank lenders are increasingly offering junior debt and preferred equity options. Altogether, rising transaction activity and a narrowing of the gap between buyer-seller expectations point to a promising outlook for 2025.

To what extent do you expect your requirement for debt to change over the next 12 months?

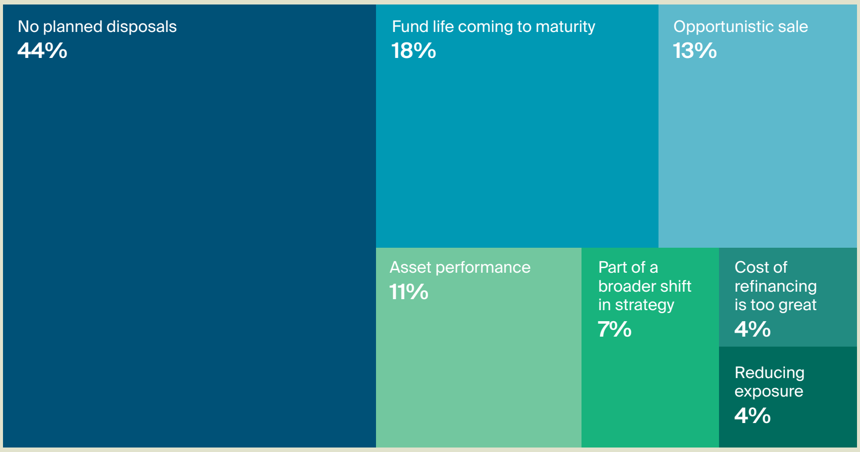
% of respondents



Source: Knight Frank Research

What are the key drivers of any planned disposals of Living Sectors assets over the next 12 months?

% of respondents



Source: Knight Frank Research
NB. values have been rounded and may not sum to 100%

42%

of those who responded to our survey expect their requirement for debt to increase next year

Market View

LISA ATTENBOROUGH
HEAD OF DEBT ADVISORY

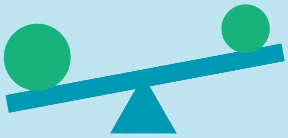
1. The Rise of Private Credit

WHAT?
2024 was the year that private credit ballooned. The number of non-bank lenders in the commercial real estate (CRE) market increased markedly across Europe, providing a welcome alternative to bank finance.

SO WHAT?
Private credit lenders approach lending opportunities often from an equity perspective, ensuring that borrower and lender interests are more closely aligned, and facilities are structured in a way that allows sponsors to complete business plan initiatives without the stringent requirements often applied by bank lenders.

The challenge in 2024 was one of deployment. As transaction activity failed to increase in line with expectations, some non-bank lenders struggled to deploy at pace. At the same time, clearing banks re-entered the market with gusto, offering a more competitive landscape for borrowers to obtain funding.

NOW WHAT?
As we move into 2025, we expect the non-bank lenders to not only remain active, but to grow their market share. Gone are the days of the 'loan to own' mantle, and rightly so, as we predict that borrowers will embrace this new source of capital and work collaboratively with these flexible and fastmoving funders.



2. Back Leverage

WHAT?
Back leverage has evolved, with real estate debt fund managers increasingly incorporating leverage into their investment strategies.

Once a relatively small and niche offering, leverage solutions for CRE private credit funds have continued to develop, becoming a key component of the debt market.

SO WHAT?
Debt funds are increasingly utilising back leverage to enhance their fund level returns and provide additional capital to deploy. As the private credit market continues to increase, so will the demand for back leverage.

Additionally, we have seen an increase in banking lenders looking to secure the relevant approvals to provide back leverage. Typically, back leverage benefits from a more favourable capital treatment than direct lending, meaning it costs banks less to provide these facilities. As a result, we have seen appetite from banking lenders increase, and at more competitive pricing in comparison to direct lending.

NOW WHAT?
Over the next 12 months, we expect to continue to see this market grow with an increased number of debt funds using, and banks providing, back leverage. We also expect to see an increase in the number of structures available within the market. This will further increase liquidity within the debt market, improving the availability of debt at competitive pricing for underlying borrowers.

3. The Funding Gap

WHAT?
As interest rates began to increase at pace around two years ago, so did concerns of the funding gap – essentially the difference between the amount of outstanding debt and the amount available for refinancing.

SO WHAT?
Whilst interest rates came down in 2024, the pace of decrease has been slower than predicted. That said, the downward slope has reduced the gap to some extent. Of greater note has been the reduction in debt pricing (margins) which have reduced by between 25-50bps due to competitive tension in the lending market. Both factors have improved debt serviceability.

The funding gap only really becomes an issue when loan maturity dates are crystalised, and throughout 2024 we saw many incumbent lenders support borrowers by offering loan extensions.

NOW WHAT?
As we move into 2025, the funding gap will still be a talking point. Many of the loan extensions which were offered last year will reach maturity, bringing more debt refinancings to the market.

However, given the growth of private credit which can offer structured solutions which allow for higher LTVs and lower coverage ratios, combined with the continued reduction in interest rates, we believe the funding gap will become less of a concern for borrowers in 2025.

Recent Research

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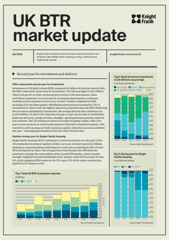

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