Mind the underinvestment gap: Shaping the UK's future through private markets investment

Holly Johnstone, Fund Manager, M&G Investments
Tom Crawley, Managing Director, Infracapital

With significant underinvestment placing pressure on the UK's social infrastructure, we consider how institutional capital can drive regeneration and unlock long term social and economic benefits.

Decades of underinvestment has placed untenable pressure on the UK's social infrastructure – housing, healthcare, transport and essential services – creating systemic vulnerabilities that constrain productivity and social mobility. The scale of investment required is vast; as is the opportunity for large scale investments by institutions (otherwise referred to as institutional capital) to create positive change and tap into what we see as an abundant landscape for holistic, private markets investing. Here we will explore:

- The UK's investment need and the substantial opportunity set for institutional capital.
- Target areas that could generate positive social, economic and environmental outcomes.
- How a diversified private markets approach could deliver attractive relative value.
- The potential for improved investment outcomes through access to hybrid transactions that can fall through the asset class gaps.

Structural challenges run deep

For generations, a disparity in wealth – and consequently living standards – has shaped the UK economy. An era of deindustrialisation combined with the deregulation of financial markets in the 1980s marked a defining chapter in the country's economic course, resulting in the UK's staggering regional income divide today, relative to its G7 peers. The UK has one of the widest regional economic gaps of any large, advanced economy, with stark differences in both disposable income and productivity between regions[1].

The UK's transition to a services economy and the network effect of London's continual draw of workers from regional towns has concentrated high growth companies in the South East, in cities including London, Oxford and Cambridge. This has accelerated economic expansion in London, where real GDP (adjusted for inflation) grew by 2.4% per year between 1998 and 2023, versus 1.7% for the rest of the UK[2].

Uneven investment levels have also resulted in mixed outcomes across the country, with the government responding to continued population growth, changing consumer needs and the need for a wholesale transformation of the country's transportation networks[3]. Between 2023/24, transport spend per head was nearly double in London compared to England as a whole[4].

The UK National Infrastructure Commission has stressed the importance of prioritising transport network investment in Birmingham, Bristol, Leeds and Manchester, in the face of growing passenger numbers. Without an increase in capacity, employment growth in these cities is likely to be constrained over the next 20-30 years, according to its Second National Infrastructure Assessment[5].

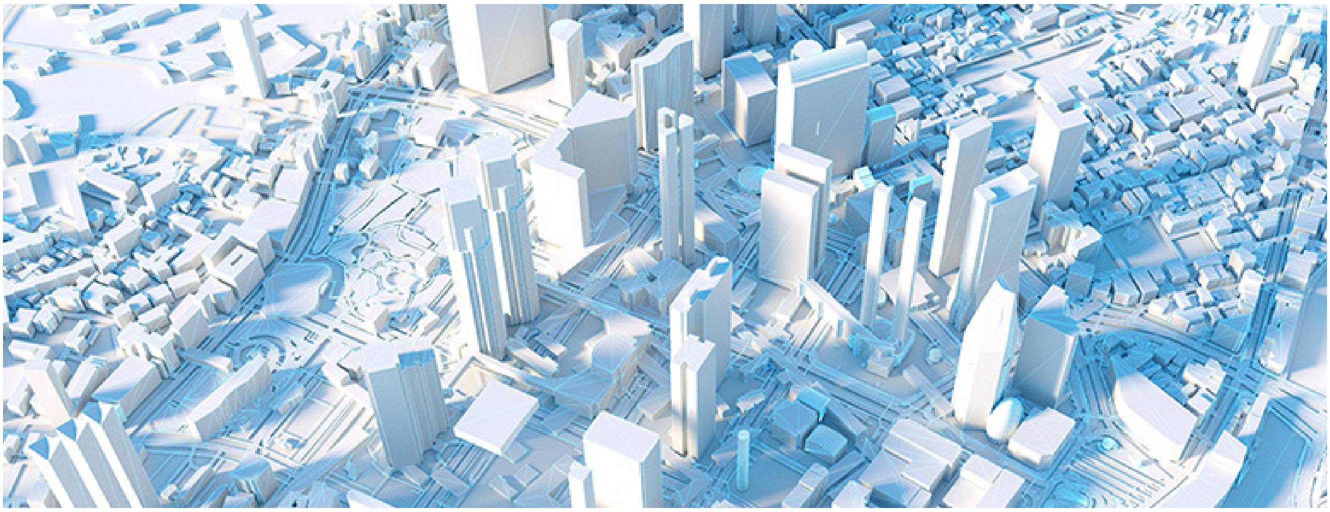
However, challenges remain even in cities that have attracted higher infrastructure spend. In London, like other cities, there are stark inequalities across and within boroughs – food bank usage has soared and the cost of living is high. Unemployment rates were also higher in London than in any other region in the third quarter of 2025, at 6.5% versus 5% for the UK overall[6].

What's more, the city is at the centre of the country's housing affordability crisis. House price to earnings ratios remain elevated across London compared to the rest of the England and average London rents have significantly outpaced earnings growth in recent years.

The impact of housing pressures on lower income households has been particularly acute in the capital, with 18.9 households per 1,000 in temporary accommodation compared to 2.6 in the rest of England as of the second quarter of 2024[7]. Pressure on housing supply and other essential infrastructure and services continues to mount with a rising urban population, echoed in key cities across the country.

The UK's growing investment need

The UK's structural challenges have been exacerbated by a lack of investment overall. Relative to GDP, the country's total investment – public and private – has remained below that of its G7 peers.



Increased levels of investment in UK real assets, including housing, healthcare, infrastructure and other essential services – supported by strong cross-party political backing – therefore has the potential to accelerate productivity and growth across the UK.

Key target areas for investment include housing, with the UK's 6.5 million home shortfall far exceeding that of the average European country[8]. New housing starts have consistently lagged government targets, and a large-scale, long-term solution is now required.

Another priority area for investment is healthcare, given a growing and ageing population, combined with the long-term deterioration of the NHS estate. Backlog maintenance costs have now risen to £15.9 billion, according to NHS data for 2024/25[9] – more than the total annual cost of running the entire NHS estate. Clinical services are therefore at high risk of major disruption or failure, meaning the requirement for fit-for-purpose healthcare facilities is paramount. Other public sector buildings, including schools and prisons, are similarly in need of significant investment.

Across the country, the need for regeneration continues to intensify. Meeting the UK's 2050 net zero goal will require £50-60 billion a year of investment through the late 2020s and 2030s[10]. The Office for Budget Responsibility estimates that over 70% of the UK's clean energy investment must come from the private sector[11].

Institutional capital alone cannot resolve the problem, but it has an integral role to play in realising projects that raise living standards, reduce health inequalities, improve public services and contribute to decarbonisation.

Putting capital to work where it's needed

Key to driving economic growth across the country is the provision of funding for high-growth companies – often university research spin-outs – such that they can establish roots in regional locations.

If institutional capital is put to work effectively, the benefit for people and places can be profound. Thriving high streets with an abundance of local and regional businesses are the lifeblood of regional towns and partnering with local authorities to create an environment in which these retailers can flourish is a tried and tested model for enabling councils to fulfil their ambitions to support local people and businesses. Likewise, funding the development of healthcare facilities can help to support better health outcomes for local people, particularly in underserved areas.

Institutional capital can also be deployed to support the need for more housing where it is needed most across the UK. Amplified by widening commuter belts, the social and economic potential this can harness can be consequential.

Why now?

We believe the clear funding gap for social infrastructure in all its forms offers a compelling opportunity for institutional investors to drive substantial change and generate attractive potential returns. However, there is a shortage of appropriate risk capital to meet this requirement, given mainstay corporate defined benefit pension schemes are de-risking and insurers, while growing, are likely to remain heavily restricted by solvency rules.

This heightens an already steep requirement. Hence, the need to channel capital more effectively in the UK, to support regeneration and growth, is widely recognised. Ongoing engagement with the likes of the newly established National Wealth Fund – designed to encourage investment by de-risking infrastructure projects, in particular – could be key to unlocking private-public sector collaboration.

Long-term investors, including local government (LGPS) and defined contribution (DC) pension schemes, as well as international capital, could be well positioned owing to the nature of their risk/reward requirements, as well as their commitment to creating positive social outcomes. The ability to invest across private markets, underpinned by predictable cash flows and/or strong growth potential, means these investors could be well-positioned to undertake investments that target some of the UK's multi-faceted structural challenges.

A holistic approach to local investment

We believe a holistic approach to local investment is the optimum way to add value – for both investors and local stakeholders. Providing holistic, single-source funding through an array of private assets capabilities can maximise the benefits of institutional capital and unlock larger, more ambitious projects which can all too often fall between the asset class gaps.

Tapping into a significant opportunity

The need to tackle the UK's structural challenges and improve social and economic inequality is an enduring task, and institutional capital is necessary alongside public sector funding and innovative long-term solutions to help achieve these goals. This requirement is supported by cross-party political backing, a shortage of available private capital, and an ambitious investment pipeline, creating what we see as an abundant landscape for holistic, private asset investing.

Since innovative, hybrid solutions are often required to bring schemes to fruition, we believe accessing investments in a way that optimises capital and the benefits that institutional capital can have on the social, environmental and economic fabric of the UK, is fundamental. Scale and breadth of private assets capabilities allows M&G to approach essential infrastructure investment in this way, with the ability to balance positive outcomes and attractive risk-adjusted return potential through real-time relative value and relative benefit decisions.

No silver bullets are available for the scale and complexity of investment required in the UK, but when approached effectively, it offers aligned investors an opportunity to support durable social and economic outcomes for the country.

M&G Investments

[1] David Bailey, Felicia Fai and Philip R. Tomlinson, 'Beyond levelling up: where next to revive lagging regions?', (tandfonline.com), January 2025.
[2] Office for National Statistics, 'Regional economic activity by gross domestic product, UK: 1998 to 2023', (ons.gov.uk), April 2025.
[3] IFS, 'IFS Green Budget 2025', (ifs.org.uk), September 2025.
[4] Office for National Statistics, 'Regional Transport Inequality', (commonslibrary.parliament.uk), November 2025.
[5] National Infrastructure Commission, 'The Second National Infrastructure Assessment', (giia.net), October 2023.
[6] Office for National Statistics, 'Labour market in the regions of the UK: November 2025', (ons.gov.uk), November 2025.
[7] Ministry of Housing, Communities & Local Government, 'Statutory homelessness in England: April to June 2024', (gov.uk), December 2024.
[8] Centre for Policy Studies, 'UK housing gap stands at 6.5 million homes, finds CPS', (cps.org.uk), July 2025.
[9] NHS England, 'Estates Returns Information Collection, Summary page and dataset for ERIC 2024/25', (digital.nhs.uk), October 2025.
[10] Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy, 'Net Zero Strategy: Build Back Greener', (gov.uk), October 2021.
[11] Offshore Energies UK, 'Business outlook 2023: The comprehensive outlook for the UK's offshore energy resources', (oeuk.org.uk), 2023.