

UK real estate in 2026: an income-led real asset opportunity

Tim Munn, Co-CEO & CIO and **Rachel Singleton**, Senior Analyst, Swiss Life Asset Managers UK

UK commercial property has undergone a period of repricing and adjustment but is once again demonstrating the qualities long-term investors value most: resilient income, relatively low volatility and tangible scope for value creation through active management. While macroeconomic conditions remain uncertain, particularly following renewed geopolitical tensions that have complicated the inflation and interest rate outlook, the foundations of the UK property market are materially stronger than during previous recovery phases.

Recent economic data encapsulates this mixed backdrop. Early 2026 saw tentative signs of resilience, with stronger services output driving a notable uplift in growth in February. However, the escalation of conflict in the Middle East and the resulting disruption to global energy markets has increased downside risks. Higher fuel prices pushed headline inflation higher in March, and the expected pass-through to household energy bills later in the year suggests inflation will remain elevated for much of the year. Even so, a softening labour market and moderating wage growth should limit second-round inflation effects and allow monetary policy to ease gradually.

These dynamics have weighed on investor sentiment. UK property transaction activity slowed sharply in the first quarter, reflecting caution around borrowing costs and near-term growth prospects. Yet underlying market performance has remained positive. According to MSCI data, returns over the period were modest but firmly income-led, with capital values broadly stable and rental growth still positive. This pattern reinforces property's role within diversified portfolios at a time when liquid asset markets have delivered outsized, and potentially less sustainable, returns.

Crucially, the current phase of the cycle differs from previous recoveries. Following the Global Financial Crisis, returns were driven largely by yield compression supported by accommodative monetary policy. Today, occupational fundamentals are doing the heavy lifting. High construction costs have constrained new supply across most sectors, exacerbating shortages of modern, well-specified space and supporting rental growth for prime assets. With valuations having largely stabilised, asset-level dispersion is placing greater emphasis on stock selection and operational execution.

Against this backdrop, real asset attributes - active management, asset-level capital expenditure and ESG integration - are becoming increasingly central to performance.

Industrial assets continue to benefit from structural demand drivers and disciplined supply. While yield softening has moderated capital growth, rental increases remain sufficient to underpin solid total returns. Investors are increasingly focused on assets with the right fundamentals: accessible locations, modern specifications, adequate power and yard space, and flexibility to accommodate evolving occupier requirements. Well-targeted investment in these areas can enhance income durability and preserve liquidity.

Living strategies offer a compelling combination of defensive income characteristics and measurable social impact. Residential investment activity has remained comparatively robust, reflecting

strong occupier demand and lower sensitivity to economic cycles. Operational efficiency, energy performance and resident engagement are critical differentiators, particularly as households face higher living costs. For long-term capital, well-managed living assets can deliver stable cashflows while directly contributing to broader social objectives around housing supply and affordability.



Source: Swiss Life Asset Managers UK, The Storage Team, Chesterfield, UK

Self-storage illustrates the potential for operational alpha within real estate. With short lease structures and granular demand drivers, returns are heavily influenced by pricing, occupancy management and ancillary income streams. The sector's fragmented nature further enhances the scope for experienced operators to drive performance through scale, brand and disciplined capital expenditure, while also improving the sustainability of existing urban assets.

In summary, UK property is in a phase where performance is defined less by market beta and more by active management. With income returns resilient, supply constrained and interest rates expected to trend lower over time, the asset class offers an increasingly compelling proposition. For investors able to deploy capital selectively and actively, UK real estate provides a durable, income-focused real asset opportunity with clear pathways to long-term value creation.

About Swiss Life Asset Managers

Swiss Life Asset Managers is an ambitious and reliable European asset manager and leading institutional real estate investor with multiple locations across Europe. We think long-term and act responsibly. With over 165 years of knowledge and experience in risk management, we develop future-oriented investment solutions. www.swisslife-am.com