The FCA's decumulation challenge: can UK REITs help deliver sustainable retirement income?

The UK's shift from Defined Benefit (DB) to Defined Contribution (DC) pensions has fundamentally changed retirement planning. The current 55–65 cohort is the first generation where, for a large proportion of private-sector workers, their retirement has become their responsibility rather than their employer's. And they are no longer focused on building wealth, but turning that wealth into a dependable income stream.

As life expectancy increases and retirement periods extend well beyond 20 years, investors need portfolios capable of generating sustainable income while preserving capital. The FCA's Thematic Review of Retirement Income (TR24/1) reinforced this challenge, highlighting concerns around suitability, withdrawal sustainability and sequencing risk within decumulation strategies.

The regulator's findings prompt investors to ask an important question: should retirement portfolios look materially different from accumulation portfolios? For many, the answer is undoubtedly yes.

Accumulation portfolios are often heavily focused on capital growth. However, once we begin drawing income, the emphasis should shift toward cashflow generation, income resilience and reducing reliance on selling assets during periods of market stress.

This is where UK Real Estate Investment Trusts (REITs) may have an increasingly important role to play. Unlike many traditional equity investments, REITs derive their returns from contractual rental income generated by physical assets.

At a time when investors are seeking solutions that can support sustainable retirement outcomes, UK listed property offers a combination of natural income, inflation linkage, liquidity, diversification and capital preservation that aligns closely with the challenges highlighted in TR24/1.

The 'Three Ss' of retirement income

TR24/1 highlighted many technical considerations, but from an investment perspective the challenge can be distilled into three key questions:

- Is the income sustainable?
- Can sequencing risk be reduced?
- Is the solution suitable for long-term retirement objectives?

These are the "Three Ss" that investors increasingly need to address when constructing decumulation portfolios.

Sustainability: the importance of growth income

Perhaps the most important question in retirement planning is whether an income stream can remain reliable and continue growing throughout retirement.

A REIT has to pay out at least 90% of its property rental income annually (as Property Income Distributions, PIDs), and several structural characteristics support the sustainability of that income.

First, diversification. Most listed REITs own portfolios spread across hundreds or even thousands of tenants, assets and locations. This reduces reliance on any single income source and mitigates the impact of individual tenant failures or sector-specific challenges. A diversified REIT portfolio can provide exposure to everything from healthcare facilities and logistics warehouses to student accommodation and residential rental properties.

Second, lease structures provide visibility. Commercial property leases are often long-dated and frequently incorporate upward-only rent reviews, fixed rental uplifts or explicit inflation linkage. In the TM Gravis UK Listed Property Fund for example, approximately 25% of assets benefit from indexed or contractual rental escalators, while the weighted average unexpired lease term exceeds eight years*.

Third, sector selection matters. The strongest parts of today's property market are not necessarily the sectors that dominated previous cycles. Many listed property companies are now exposed to long-term structural themes such as:

- Healthcare and ageing populations
- Logistics and digitalisation
- Build-to-rent housing
- Student accommodation
- Self-storage

These sectors benefit from enduring demand drivers rather than short-term economic trends.

Importantly, investors should think of REITs as providers of growth income rather than fixed income. Because unlike bonds, where coupons remain static, rental income can grow through rent reviews, inflation linkage and asset management initiatives. This distinction is particularly valuable in retirement where inflation remains one of the greatest long-term threats to real purchasing power.

The TM Gravis UK Listed Property (PAIF) Fund has delivered annualised dividend growth of 6.9% since inception (31st Oct 2019), ahead of CPI over the same period, illustrating the potential for real income growth from listed property. As a Property Authorised Investment Fund (PAIF), it has the added bonus of paying out PIDs gross to tax-exempt investors (e.g. those holding the fund in an ISA or a SIPP).

Sequencing risk: the value of natural income

The second challenge identified by TR24/1 is sustainability of withdrawals. Underlying this is the often-overlooked issue of sequencing risk.

A significant market correction early in retirement (or indeed any time) can be particularly damaging if clients simultaneously need to sell investments to fund spending requirements. Because capital withdrawn at depressed valuations is no longer available to participate in any subsequent recovery.

Many traditional decumulation strategies rely heavily on capital sales to generate income. REITs offer a different approach. Because underlying properties generate rental income, a meaningful proportion of total return can be distributed naturally. Rather than relying exclusively on selling holdings, investors can draw upon rental income.

This distinction is highlighted when comparing a traditional target-income portfolio with a REIT-based income strategy. A portfolio generating a fixed percentage withdrawal through asset sales carries significantly higher sequencing risk than a portfolio generating comparable natural income through contractual rental payments. The former relies on capital depletion; the latter relies on cashflow generation.

That does not eliminate sequencing risk entirely, but it can reduce dependence on forced selling during periods of market weakness. For clients entering or in retirement, that may prove particularly valuable.

Quality of income streams

Of course, not all income is created equal. One of the mistakes investors can make is focusing solely on headline yield. A higher yield may simply reflect higher risk. When assessing listed property companies, investors should look beyond dividend yield and evaluate the underlying quality of the income stream.

Key considerations include:

- Tenant covenant strength
- Lease duration
- Occupancy rates
- Rental growth prospects
- Capital expenditure requirements
- Debt profile
- Environmental standards

The difference between an ageing secondary retail asset and a modern logistics facility illustrates the point. Both may offer attractive yields, but the logistics asset is often supported by stronger tenant demand, greater pricing power and more durable rental growth prospects.

Environmental factors are becoming increasingly important too. Properties with poor EPC ratings may face growing regulatory risks and weakening occupier demand. By contrast, modern energy-efficient buildings may enjoy stronger occupancy and rental growth over the long term. The proportion of A and B-rated properties within the Gravis portfolio has improved significantly over recent years and is substantially ahead of the wider commercial property market.

Suitability: a different investment requirement

The FCA's review also highlighted concerns that some portfolios remain largely unchanged as clients transition from accumulation into drawdown. Yet the objectives of a retiree are often very different from those of a client still building wealth.

Retirement portfolios typically require:

- Regular income
- Inflation protection
- Diversification
- Liquidity
- Capital preservation

REITs potentially contribute to all five.

Unlike direct property funds, which have periodically experienced gating issues, UK listed REITs trade daily on the London Stock Exchange. Unlike bonds, income can grow. Unlike many equity sectors, returns are supported by tangible assets generating contractual cashflows.

This combination makes listed property particularly relevant for investors seeking assets that can support retirement objectives across multiple market environments.

A timely opportunity?

The income characteristics of REITs are attracting renewed attention at a time when valuations remain compelling. Following the sharp repricing caused by higher interest rates between 2022 and 2024, UK listed property companies continue to trade at meaningful discounts to underlying net asset values.

At the same time, private equity and other institutional investors have remained active buyers of listed property companies, suggesting that sophisticated investors continue to identify value in the sector.

The FCA's review raises an important challenge: retirement portfolios should not simply be accumulation portfolios with withdrawals switched on. Clients drawing income need assets capable of supporting spending requirements through a variety of market conditions, while helping manage sequencing risk and protecting purchasing power from inflation.

UK REITs are unlikely to be the sole solution to those challenges. However, their combination of contractual income, inflation-linked growth potential, diversification benefits and daily liquidity means they deserve serious consideration within modern decumulation portfolios.

After a decade in which investors often chased returns through increasingly concentrated growth exposures, there is a powerful argument for revisiting an asset class built on something much simpler: collecting rent and distributing it to investors.

**Source: Gravis, as at 30 June 2026*

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