



UK Property Update September 2025

Following a strong start to 2025, UK REITs have come under pressure from rising bond yields and market positioning in months, but the pullback could be a gift for investors. With valuations at trading at unusually large discounts, income yields north of 5%, and heavyweight institutional buyers underweight, the sector looks primed for a rebound.



Matthew Norris, manager of the TM Gravis UK Property (PAIF) Fund, and James Peel, senior research analyst, share their insights on the road ahead.

Performance

Having enjoyed a strong start to 2025 (rising 11.3% in the first half the year), UK REITs have seen performance retrench in the past two months on the back of rising bond yields and hedge fund positioning that is long UK banks while short UK REITs.

Large-cap, liquid names have been the primary targets—particularly the generalist REITs such as British Land and LandSec (which we do not own)—and have ranked among the sector's weakest performers over the past three months, pulling the broader index lower.

	Percentage returns 1 Jan – 30 Jun 2025	Percentage returns 1 Jul – 31 Aug 2025	Percentage returns year-to-date (2 Sept 2025)
TM Gravis UK Listed Property PAIF	18.5%	-7.6%	6.5%
MSCI UK IMI Core Real Estate Index	11.3%	-9.5%	-1.9%
FTSE 100	9.5%	5.3%	14.7%

Source: FE Analytics, total returns in sterling

A 4.75% yield on a 5-year gilt doesn't materially shift funding costs from last year. Gilt yields bottomed in the second half of 2020 and REITs have since adapted; the pain in 2021–22 was about the speed of the yield move. We favour stronger balance sheets (lower leverage) and businesses able to drive rental growth to offset the headwind.

Policy developments may also prove pivotal. Greater political stability, together with a Bank of England rate-cutting cycle, a stabilisation in bond yields or further evidence of private capital willing to transact at book value, could act as catalysts to reverse this pressure and create a meaningful tailwind for the sector.

Valuations

UK REITs are now trading at a discount to NAV of more than -30%, versus a 10-year average of -18%, drawing value-hunters from the institutional and private equity space. M&A activity has been rife.





Hopefully other investors won't miss the opportunity: long-only generalist investors are still vastly underweight the sector.

Proprietary research by Gravis shows that since 1999, when the sector trades at discounts wider than -30%, the subsequent performance is highly compelling. One year later, the average return is +24%, with the index higher in 89% of observations. Over two years, the average return rises to +51%, with the index higher 94% of the time.

Positive read-across

Earlier this year, Norges Bank Investment Management (NBIM) acquired a 25% stake in Covent Garden from Shaftesbury Capital for £570 million, paying the recent valuation rather than securing a discount. The deal highlights the continued attractiveness of prime UK real estate to institutional investors.

NBIM's activity, alongside Blackstone's bid for Warehouse REIT, underscores the disconnect between public and private market pricing. While NBIM paid book value for part of Covent Garden, Shaftesbury Capital itself trades at a discount of more than 30% to net asset value.

For UK REITs still trading at similar levels, this provides a positive read-across, suggesting meaningful upside potential as valuations converge.

Income on offer

The other important aspect for investors is the income property funds offer. Our fund, for example, has a trailing dividend yield of circa 5.2% and, importantly, represents growth income rather than fixed income. What's more, around 35% of rents are inflation-linked or benefiting from fixed uplifts, providing a contractual source of growth.

The remainder, exposed to market forces, offers further upside—particularly in sectors such as logistics where reversionary potential is substantial. For instance, Schroder REIT, added to the Fund in March, has c.40% reversionary potential, with in-place rents well below market levels. Realising this gap drives rental growth, which in turn supports earnings growth and ultimately dividend growth.

Bloomberg forecasts indicate dividend growth in the sector of more than 3% per annum over the coming years. And while UK government bond yields have widened in recent months to c.4.8% on the 10-year gilt, these are nominal figures. Adjusted for inflation, the real yield on the 10-year gilt is only 1.7%. So UK REIT income is still very attractive.

UK REIT universe

While the UK REIT universe has contracted due to M&A, it's important to remember that just 18 months ago, REITs were issuing new equity – £2 billion worth – to make the most of pipeline opportunities. So while the number of REITs may have shrunk, their size could well increase significantly once sentiment turns.

There is also scope for new REITs to come to market in areas such as healthcare or data centres, for example. Private equity firms will also have to think about how they exit some of their investments in the future.

Final thoughts

Against a backdrop of improving property fundamentals (rental growth and increasing occupancy), stabilising asset valuations, and today's unusually wide discount, the current market context may represent an attractive entry point.

Overall, we see an attractive risk-reward profile in the sector, with downside appearing relatively limited. Further M&A activity, coupled with long-only investors reducing their significant underweights, could provide catalysts for the next leg higher.





Important information

Disclosure: as at 1 September 2025, the TM Gravis UK Listed Property Fund invests in Warehouse REIT.

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