Leaders See Credit Boom Pulling Real Estate Out Of The Doldrums

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Debt is almost always the cause of a real estate downturn. But in this part of the cycle, it may be the sector's saviour as well.

The abundance of real estate available at competitive prices will help boost the UK investment market in 2026 after a moribund few years, a panel of senior leaders outlined last week.

"The extent of the liquidity out there, the availability of credit and the pricing of credit is really supportive to transaction activity and confidence," Blackstone (https://www.bisnow.com/tags/blackstone) Head of European Real Estate James Seppala (https://www.bisnow.com/tags/james-seppala) told an audience of more than 200 at *Bisnow*'s London Real Estate Leadership: 2026 Forecast.

The event was held at Nauru Real Estate and Lothbury Investment Management's 127CXR office building in the West End.

The availability and pricing of credit was a constant refrain from all of the speakers at the event, and after three years when higher interest rates made it unprofitable to borrow to buy property, the market has shifted.

New real estate lending was £22.3B in the first half of 2025, according to the most recent data from Bayes Business School (https://www.bisnow.com/tags/bayes-business-school). That is 33% higher than the equivalent period in 2024.

Base rates have dropped 150 basis points since peaking in August 2023. An interest rate of 3.75% is still higher than the post-Global Financial Crisis period, but the competition among lenders for deals has driven down lending margins, meaning the all-in cost of finance is not as prohibitive as it was two years ago. That is especially true after values have fallen in many sectors.

“The cash-on-cash return that you can generate, and how accretive financing is, that’s a big part of the value proposition right now,” M&G Real Estate Global Head Martin Towns said. “It obviously aids liquidity as well, because we need the debt to be flowing for the equity transactions to make sense.”

The rapid growth of the private credit sector in recent years and the proliferation of real estate debt funds have been a big part of the increase in credit for UK property, but Seppala pointed to all aspects of the lending universe — traditional banks, the CMBS market, the unsecured bond market and debt funds — as being highly liquid at the moment.

Jess Tomlinson (https://www.bisnow.com/london/news/women/uk-wlre-2024-125812), Lloyds Bank’s head of real estate and housing, said that after a quiet few years while they took stock of a different real estate market, lenders are now ready to go again.

“Many of us are coming off a period where our books have actually behaved very resiliently, so we're all feeling quite confident,” she said.

The returns available from lending have surpassed those available from direct investment for the past few years, which has led institutional investors to err toward debt rather than equity.

But that balance is shifting, which is vital for a functioning investment market — after all, there’s no point in there being loads of debt available if no one wants to borrow.

"We have a fairer fight when it comes to debt and equity," said John O'Driscoll, BNP Paribas (https://www.bisnow.com/tags/bnp-paribas) Asset Management global co-head of real estate.

Reduced volatility in pricing should lead to a steady but sustained recovery in investment volumes, he added.

The market won't recover overnight. Seppala pointed out that it wasn't until 2011 or 2012 that the market picked up again after the GFC. And while back then interest rates dropping to zero created a very broad-based increase in volumes and values across asset classes, that won't be true this time around.

"I think we might see some weird headlines over the course of the year," O'Driscoll said.

The market as a whole might be on a path to recovery, but individual companies, assets or deals might struggle to lease or sell as tenants and investors focus on the micro elements of a transaction.

"I'm perhaps a little more sanguine," Delancey (https://www.bisnow.com/tags/delancey) CEO Stafford Lancaster said.

He predicted that deal volume will stay low for a bit longer. While the market will recover, he said, investors remain "risk off" on the whole, and transactions will increase only slowly.

That could make this an excellent vintage for deals, with less competition meaning bargains are available.

"But it's a market for rifle shots, rather than buying everything," Lancaster said.

Delancey has been one of the biggest buyers of offices in London in the past 12 months, spending £500M on three buildings in a joint venture with Australian pension fund Aware Super (https://www.bisnow.com/tags/aware-super), and Lancaster said that while values have improved, there is still an opportunity to make good returns in the sector, particularly as rents are rising in good-quality buildings.

More broadly, beds and sheds is no longer the only game in town when it comes to a UK real estate investment strategy, BNP's O'Driscoll said, with offices, life sciences and retail also offering the potential for good returns.

In general, development offers attractive returns in most sectors today because of the lack of construction in recent years.

That feeds into one of the biggest opportunities right now. It isn't sexy, it doesn't grab the headlines, but given the low levels of supply in many markets, good asset management can outproportionately drive up income (https://www.bisnow.com/national/news/commercial-real-estate/youve-weaned-yourself-off-interest-rate-cuts-now-its-time-to-sweat-132620).

"Replacement costs for real estate were up around 40% between 2019 and 2024, and we haven't yet seen that flow through to the revenue side," Seppala said. "I think over the next few years, there's the opportunity for meaningful cash flow growth across the higher-quality, better assets in a way that's underestimated."

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