Housing crisis

Understanding the UK residential market gap

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Policy-driven shifts

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Macroeconomic drivers

The UK residential housing market is facing a structurally challenging outlook, shaped by a decade of macroeconomic shocks and demographic shifts.

Rents are rising, investment is falling, and demand continues to outpace supply, especially in the rental sector. Since 2016, disruptions like Brexit, COVID-19, and the Russia-Ukraine war have driven inflation and strained supply chains. In response, interest rates rose sharply, from 0.25% in October 2017 to 5.25% by August 2023.[1]

Housing affordability has deteriorated. In London, sale and rent prices have nearly doubled since 2010, while real wages for low earners have dropped 9% since 2008.[2] Nationally, low-income wages rose just 10%, far below the near 100% increase in housing costs. Rising principal payments and interest rates are pricing many out of home ownership and pushing them into the rental market.

The mismatch between supply and demand is growing

Affordability is now a critical issue, particularly in London. Private rents rose 5.7% nationally between September 2023 and 2024,[3] and the average rent per property in England increased by another 2.9% between 2024 and 2025.

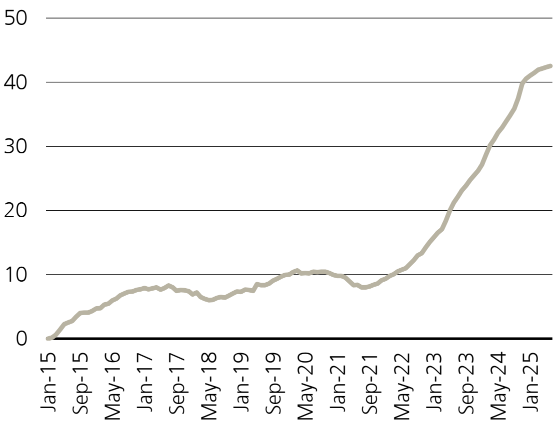
But how should investors respond to this?
And why would they feel incentivized to increase supply?

London's rental reality

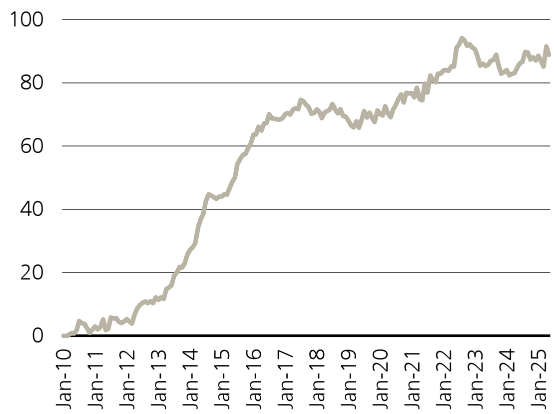
Londoners spend an average of 40% of their gross income on rent, peaking at 43% in 2023, compared to a national average of 33%.[4] This high rent burden makes it increasingly difficult to save for a deposit, reinforcing the cycle of rental dependency.

Figure 1 – London house and rental price changes

London rental prices indexed to 2015



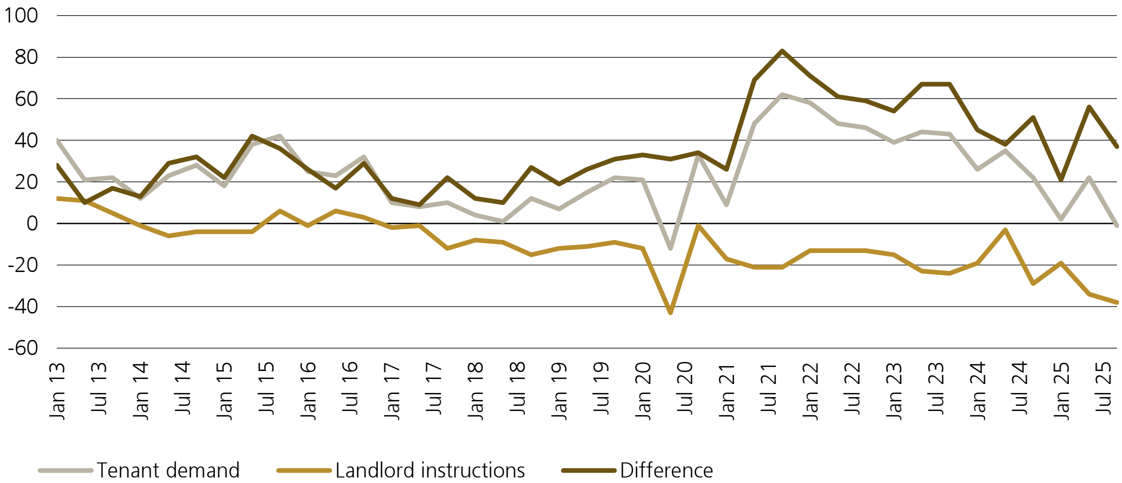
London house prices indexed to 2010



Source: Land Registry, Office for National Statistics, UBS Asset Management, March 2025.

Beyond financial constraints, demographic shifts are intensifying housing demand. Between 2014 and 2024,[5] the number of single-person households in England rose by 11%, driven mainly by an aging population. The number of people aged 65 and over living alone is growing, and those aged 85 and older are projected to more than double between 2016 and 2041.[6] These changes increase the need for housing regardless of financial capacity, further widening the gap between supply and demand.

Figure 2 – Supply vs. demand in the UK rental market (percentage of survey responses reporting a rise minus percentage reporting a fall)



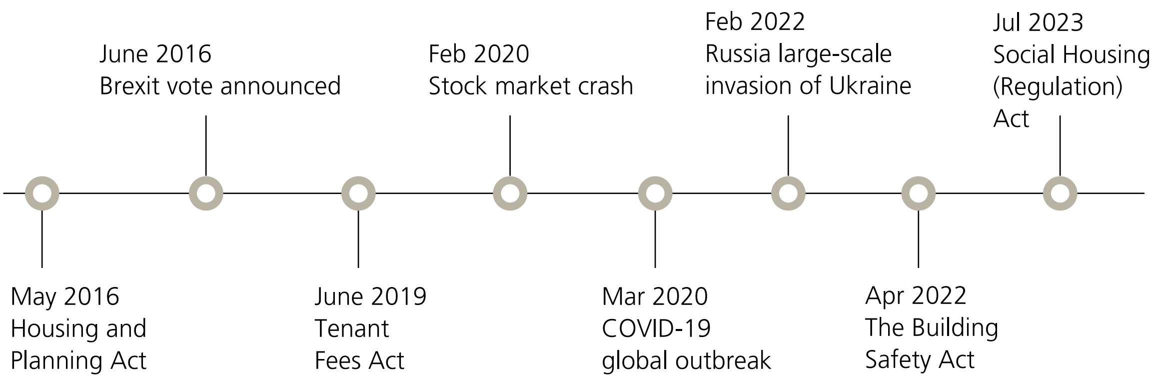
Source: RICS, UBS Asset Management, September 2025.

The impact on housing demand

This dual pressure from financial and demographic demand is widening the gap between supply and demand. Affordable housing, typically defined as homes let at least 20% below market rates,[7] is becoming increasingly strained. As market rents rise, so do the thresholds for affordability, undermining the intent of these schemes and leaving many households without viable options.

In summary, macroeconomic volatility has eroded affordability and shifted demand toward rental housing, while demographic trends have increased the structural need for more units. **The result is a market under pressure from both ends, financial and demographic, raising urgent questions about how supply and investment will respond.**

Figure 3 – The macroeconomic and regulatory timeline



Source: UBS Asset Management, September 2025.

Supply-side issues

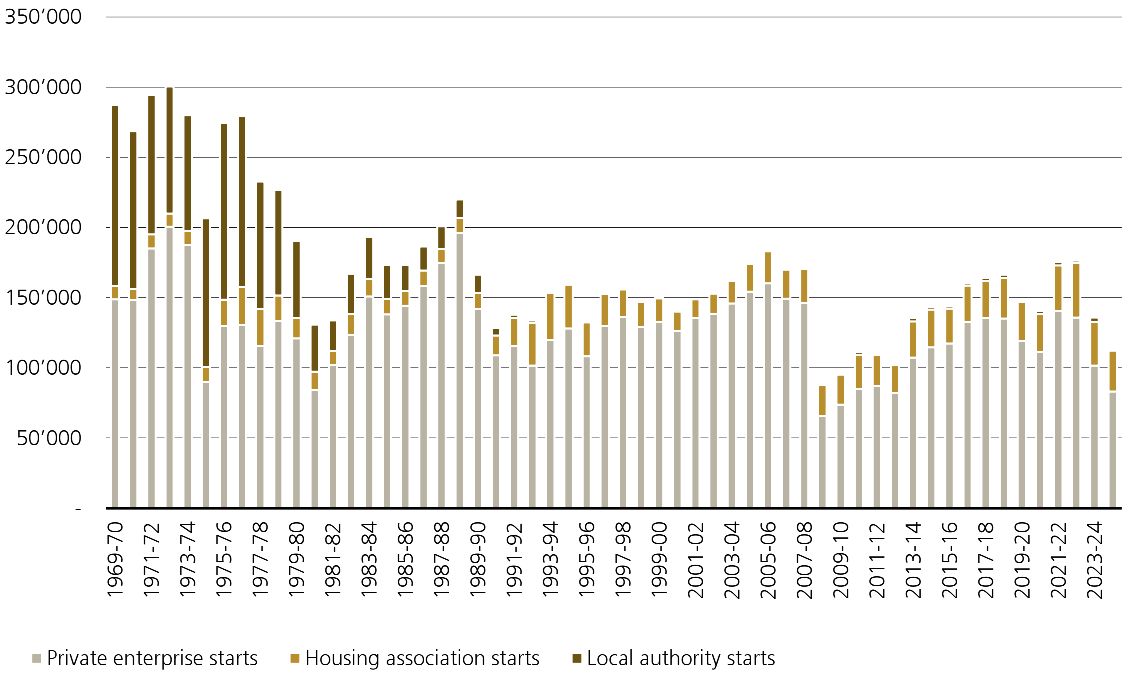
Overview of supply
On the supply-side, as of October 2024, only 5% of private rental listings in London were affordable to low-income households using Local Housing Allowance to pay their rent.[8] Between April 2021 and December 2023, 45,000 rental properties were sold without being replaced, that is, 4.3% of London's privately-rented homes.[9] Since 1970, the supply of new builds has been on a downward trend. Alongside the rapid increase in demand, this puts a squeeze on the remaining supply, and contributes to the rapidly increasing rent levels.

Housing associations
Housing associations seem to be the only suppliers that have seen growth in the number of new builds, starting over 30,000 new projects across England this year. However, this is a drop in the ocean compared to the government's goal of 1.5 million new homes by 2029.[10] Elsewhere, we are seeing strong downward trends in the number of new builds in both private enterprise and local authorities. Despite the clear demand for housing, there are obviously reasons that dissuade private investors from moving their capital into residential real estate, especially affordable housing.

Regulatory timeline
Looking at the regulatory timeline might give us insight into the lack of motivation for investment into the living sector. For example, the Tenant Fees Act 2019 significantly altered the economics of the private rented sector by banning most letting fees and capping tenancy deposits. This shift placed the financial burden of services, such as referencing and administration, onto landlords, reducing their net returns. For developers and investors considering new private rental projects, this change diminishes the attractiveness of buy-to-let as a business model. Lower expected yields, combined with increased compliance requirements and the risk of enforcement penalties, create a more complex and less profitable environment. As a result, many private landlords may choose to delay, scale back, or redirect investment away from private residential development, contributing to a decline in new builds.

As a result of the Grenfell disaster, the Fire Safety Act was introduced, and more importantly, the Building Safety Act was introduced in 2022. This legislation meant new and substantial regulatory and financial obligations for developers and landlords to meet, particularly in relation to high-rise buildings. These include potential liability for remediation costs and complex leaseholder protections, which increase both the cost and risk of residential development. The legislation also complicates property transactions, placing new burdens on conveyancers and slowing down sales, especially in London, where high-rise developments are more common. These factors create a more uncertain and less attractive environment for private investment in residential accommodation.

Figure 4 – The quantity of new builds since 1969 in England

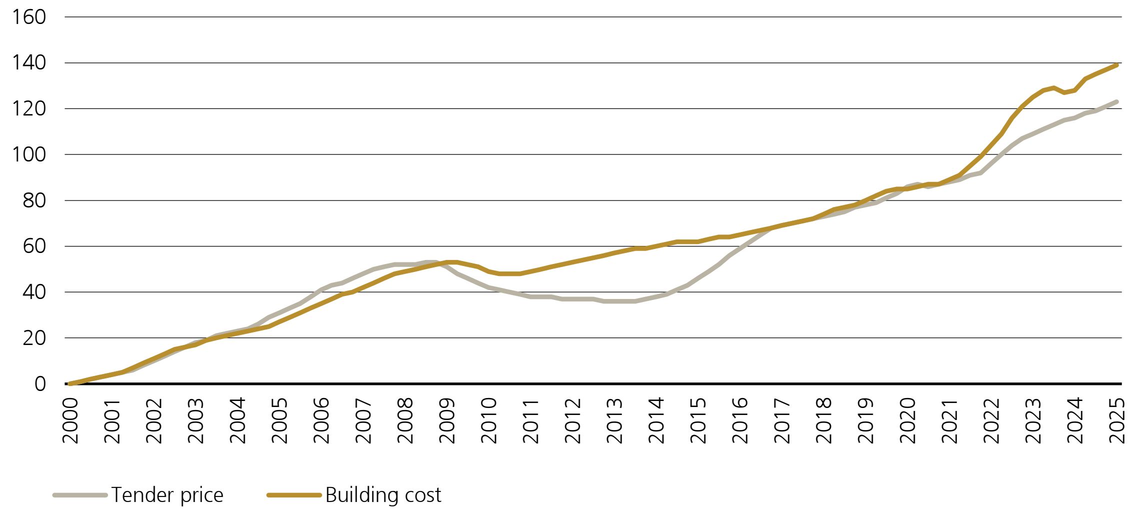


Source: Ministry of Housing, Communities & Local Government UBS Asset Management, June 2025.

Costs overview

What are the other factors squeezing supply?

Figure 5 – Tender price and build costs cumulative percentage changes since 2000



Source: United Nations, OECD, UBS Asset Management, September 2025.

The cost of materials has outpaced inflation, challenging investment margins

Rising tender price and building cost indexes present a significant challenge to investment in new residential housing projects. With the tender price index rising 126% and building cost index rising 142% as of 3Q25,[11] when indexed back to 2000, and both forecasted to rise further, developers face increasing financial pressure. Higher tender prices reflect the growing cost to clients for commissioning construction, while elevated building costs signal rising expenses for contractors, driven by labor and material inflation. These trends reduce profit margins, increase budget uncertainty and complicate financial planning for new developments. As a result, investors may be deterred from committing capital to residential projects, particularly in a market already facing regulatory and economic headwinds.

Given the increasing regulatory and financial pressures, particularly around fire safety, energy efficiency and maintenance, the current environment is not overly attractive to investors. High-rise developments, which carry greater compliance risks under the Building Safety Act and often require costly remediation, are seen as even less attractive. Similarly, older housing stock requiring significant upgrades to meet energy performance certificates (EPC) standards or the Decent Homes Standard presents high capital expenditure and uncertain returns. In contrast, new-build affordable housing may offer lower-risk opportunities, as these developments typically meet energy efficiency requirements and benefit from government support through initiatives like the Affordable Homes Programme and proposed National Planning Policy Framework (NPPF) reforms.[12] The government's commitment to social housing, alongside clearer rent settlement policies and reduced Right to Buy discounts, contributes to a more stable and predictable framework. As a result, the outlook for investors is cautiously optimistic, and those willing to push for public sector goals and energy-efficient developments may find viable opportunities.

The withdrawal of private landlords, driven by rising costs and regulatory pressures, has reduced the supply of affordable rental homes, making it harder for the government to meet its housing targets. While the abolition of no-fault evictions improves security for tenants, it may also discourage smaller landlords from remaining in the sector. This may create opportunities for institutional investors to step in. With their scale, long-term outlook, and ability to navigate complex regulation, institutions look well placed to deliver affordable rental housing at scale. By investing in new developments and partnering with government initiatives, institutional investors can help fill the gap left by private landlords, improve housing standards, and play a crucial role in delivering affordable housing in the UK.

Sources: Raw data sources: Bricks and Logic, April 2025. Office for National Statistics RICS, ONS

1 Bank of England, (*link*), August 2025.
2 Trust for London, How has pay changed for Londoners over time?, (*link*), February 2025.
3 Gov UK, Index of Private Housing Rental Prices, UK: September 2023, (*link*), October 2023.
4 Savills, Rental forecast, (*link*), November 2024.
5 Gov UK, Families and households in the UK: 2024, (*link*), July 2025.
6 Gov UK, Living longer: how our population is changing and why it matters, (*link*), August 2018.
7 Gov UK, Fact Sheet 9: What is affordable housing?, (*link*),
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