

MARKETBEAT

ECONOMY & HOUSING

JANUARY 2026

Better never settles

AN OPTIMISTIC NOTE?

With the outlook for growth muted, there have been a number of recent economic stories that have surprised on the upside against consensus views.

Firstly, GDP for November saw a rebound to 0.3% after a fall of -0.1% in October, and a 0.1% increase in September (having been revised upwards from a contraction of -0.1%). This means we are likely to end 2025, with an annual growth rate of 1.4%.

Since then, after a positive PMI of 51.4 in December, the Flash PMI for January saw a sharp increase to 53.9. This was driven by an uptick in business optimism and strong order numbers, with the Services PMI as high as 54.3; Manufacturing was still positive at 51.6 but more muted in comparison. While the Flash PMI could well be revised, the reading suggests an element of post-Budget positivity across the business environment.

The other unexpected news was December's increase in retail sales volumes, which saw growth of 0.4% month on month. However, this did not stop another disappointing 'golden quarter' for the retail sector, with the 'golden quarter' now seeing seven successive decreases in a row, as a result of lower pay growth and still low consumer confidence.

Despite these positive signs, with the labour market still showing signs of weakness, we still expect that the GDP growth will be muted during the course of 2026, which should underpin further interest rate cuts. On which....

TOO SOON TO CUT

CPI unexpectedly increased to 3.4% in December, up from 3.2% in November. Nevertheless, we still expect inflation to come down during the year, with interest rate cuts to come. However, it is likely that the MPC will think the February meeting is too early for cutting yet, with more evidence required of disinflation and pay remaining stable. In which case, the next interest rate cut may come at the April meeting.



Daryl Perry
Head of UK Research & Insight
daryl.perry@cushwake.com

KEY TAKEAWAYS



November saw a rebound in economic activity, with GDP increasing by 0.3% during the month.



Consumer confidence improved one point from -17 to -16. The reading marked ten years of negative consumer confidence.



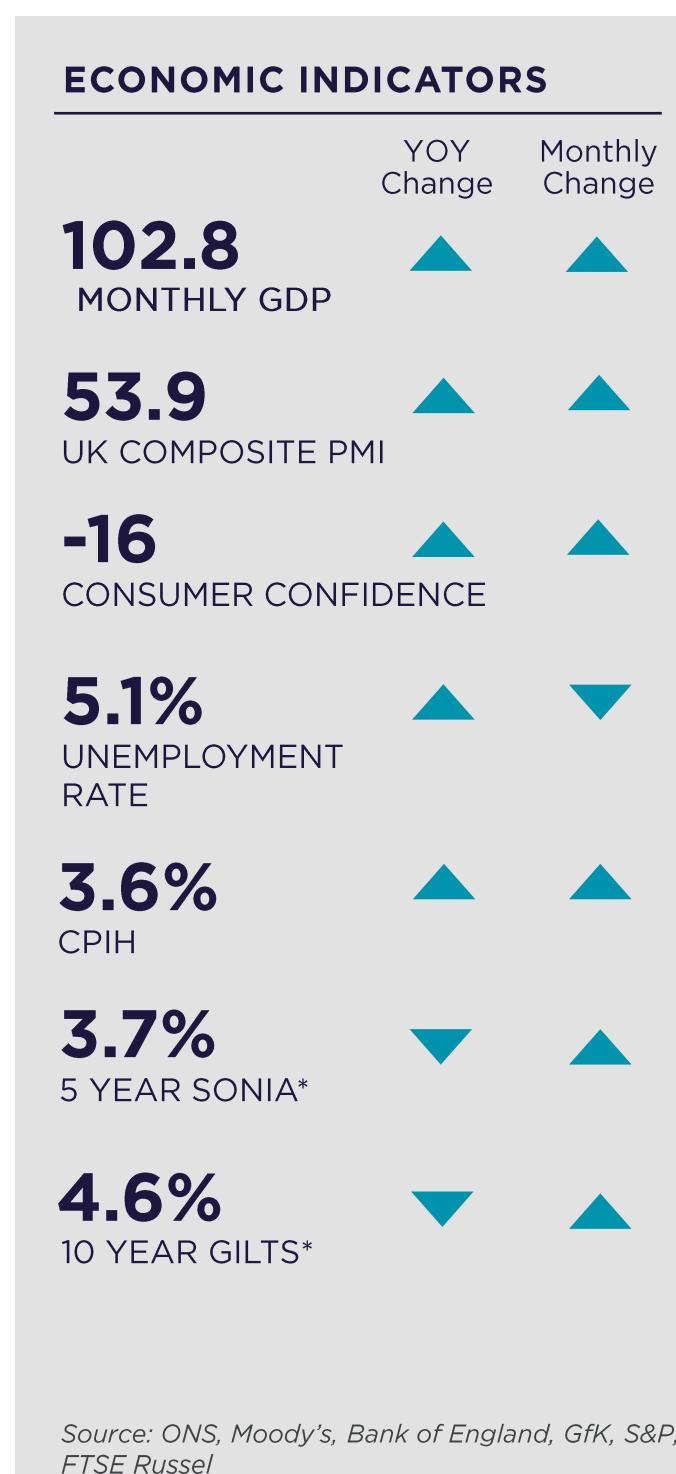
The Flash PMI for January 2026 suggests a sharp increase to 53.9 driven by stronger services, more robust orders and improved business optimism. This would mark an increase on the 51.4 reading from December.



In November, UK house prices experienced a 0.3% monthly increase bringing annual growth to 1.8%.



At its December 2025 meeting, the Monetary Policy Committee (MPC) voted to cut the Base Rate from 4% to 3.75%.



ECONOMIC OVERVIEW

November saw a recovery with GDP growing 0.3%, after falling 0.1% in October and growth of 0.1% in September (revised upwards from a 0.1% contraction), with growth in Production (1.1%) and Services (0.3%).

This means that in the three months to November, GDP expanded by 0.1% compared with the three months to August. However, this was despite falls of 0.1% in Production output and a fall of 1.1% in construction. Services output increased by 0.2%.

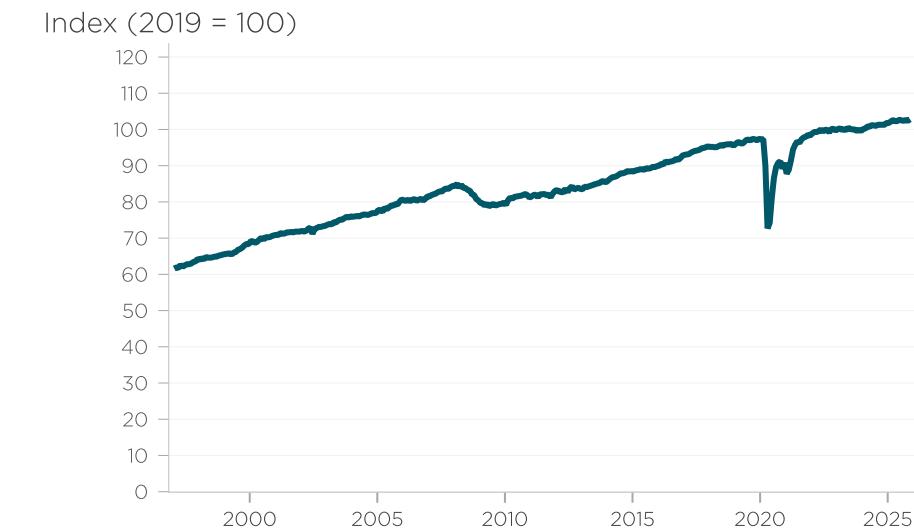
A significant amount of the growth comes from a rebound from earlier weakness in the year, as well as the production re-start of JLR in October, which has since ramped up.

The Composite PMI for December was revised down to 51.4 after a Flash reading of 52.1. Nevertheless, the barometer showed construction, manufacturing and services all improving. The Flash PMI for January 2026 suggests a sharp increase to 53.9 driven by stronger services, more robust orders and improved business optimism.

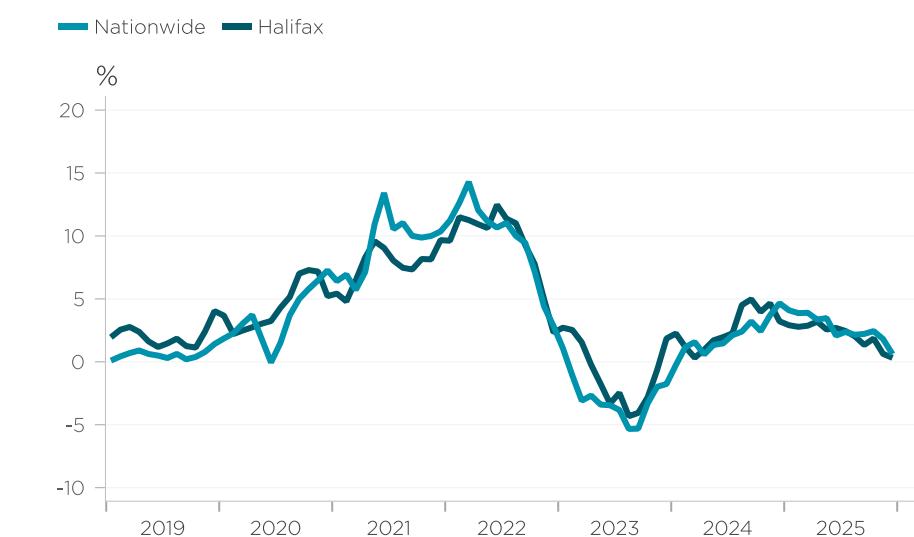
CPI unexpectedly increased to 3.4% in December, up from 3.2% in November. CPIH rose by 3.6%, up from 3.5% in November.

The housing market remains relatively robust, albeit house price inflation continues to fall. In November there were 100,350 residential transactions, a modest monthly and annual increase of 1.3% and 7.7% respectively. UK house prices for December saw a 0.4% monthly decrease bringing annual growth to 0.6% at the end of the year.

MONTHLY GDP



UK ANNUAL HOUSE PRICE INFLATION



UNEMPLOYMENT & JOB VACANCIES

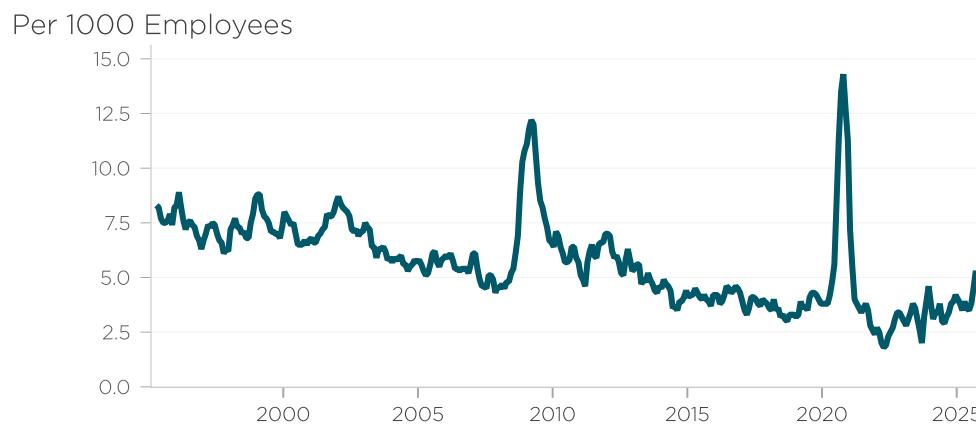


EMPLOYMENT

Payrolled employees continued to decline, falling by an additional 33,000 between October and November. This means that year-on-year, there were 135,000 less people in work. The early estimates for December suggest an additional monthly fall of 43,000 bringing the total number of payrolled employees down to 30.2 million. The overall UK employment rate for people aged 16 to 64 dropped to 75.1% in November, in line with the same period in 2024.

The UK unemployment rate increased again to 5.1% in line with the previous month and still the highest since early 2021, while the claimant count is now at 1.67 million. The number of vacancies has been broadly stable over the last six months. In what is good news, the number of vacancies in October-December increased by 10,000 to 734,000 compared to July-September. Nevertheless, there are 69,000 less vacancies than there were a year previous. The unemployment to vacancy ratio increased from 2.4 to 2.5, up from 1.9 in the same period last year.

ILO REDUNDANCY RATE



Due to the lagging nature of redundancy data, information on redundancies is unlikely to give a true indication of current economic health. Nevertheless, the three months that runs to November saw the number of redundancies decrease from 5.3 to 4.9 per 1,000 employees, coming down from a post-pandemic high.

The caveat remains that labour market data provided by the ONS are subject to considerable uncertainty due to ongoing small sample sizes in the Labour Force Survey. The ONS are continuing efforts to improve the response.

EARNINGS

Wage growth continues to moderate. For the three months to November 2025, annual regular pay growth was 4.5%, slightly lower than the 4.6% recorded previously. The annual growth in total pay (including bonuses) was 4.7%. In real terms (adjusted for CPIH inflation), annual growth was 0.6% for regular pay and 0.8% for total pay.

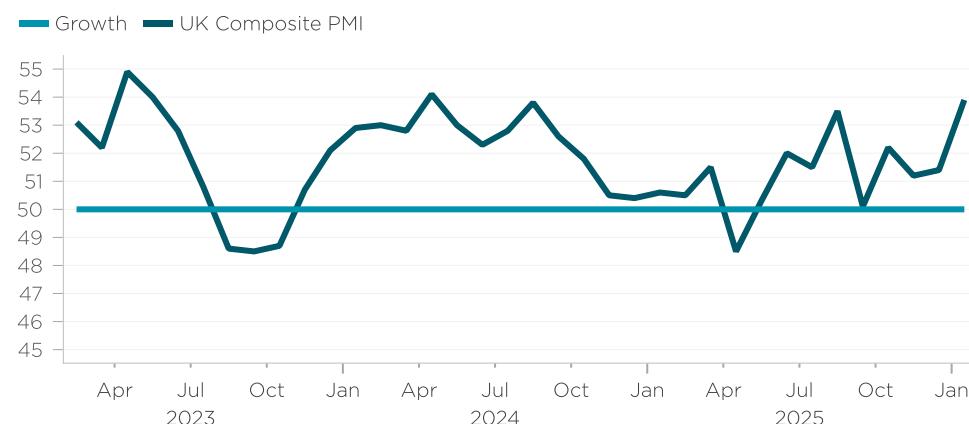
Public sector wage growth remains markedly stronger, increasing to 7.9% driven by delayed pay settlements, albeit that should now phase out. Private sector wage growth fell to 3.6%, its lowest rate since late 2020.

After the public sector, the wholesaling, retailing, hotels and restaurants sector showed the strongest regular annual growth rate, at 5.1%, in the three months to November 2025. Finance and business services had the lowest annual regular growth rate at 2.2%.

PAY IN REAL & NOMINAL TERMS



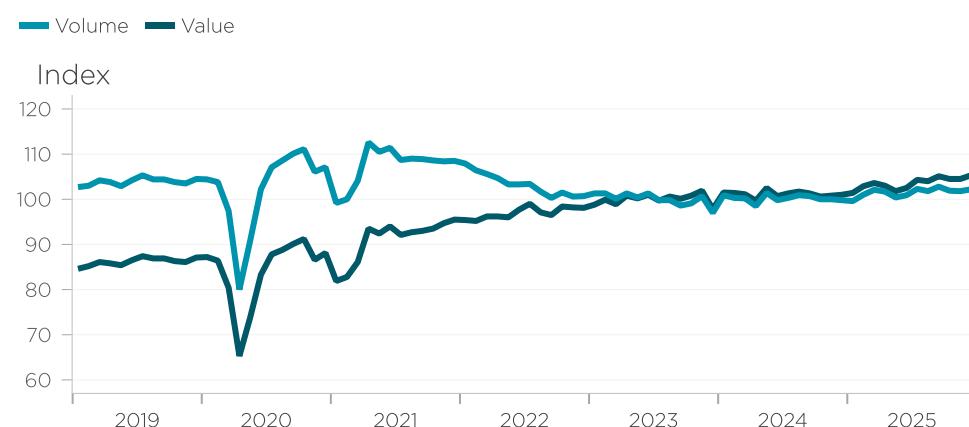
UK COMPOSITE PMI



CONSUMER CONFIDENCE



RETAIL SALES AND VOLUME INDICES



BUSINESS DEMAND

Business confidence saw improvement in December. The Flash UK Composite PMI rose from 51.2 to 51.4 in December, albeit this was done on the Flash reading of 52.1. The bounceback can be attributed to post-Budget certainty. Services PMI increased with service providers reporting the strongest rise in new orders in 15 months. Since then, the Flash PMI for January has increased to 53.9 driven by stronger services, more robust orders and improved business optimism.

BUSINESS FAILURES

Company insolvencies remain elevated albeit November saw a marked decrease. During November, there were 1,866 insolvencies, 8% lower than the previous month and 7% lower than a year previous. Rolling 12-month rates decreased to 52.9 per 10,000 companies, from 53.4 the previous month and 53.9 a year previous, suggesting a modest trend toward improvement amid persistent stress. For 2024, we expect company failures to sit somewhere between the highs of 2023 and 2025. While the insolvency rate has increased since the lows seen in 2020 and 2021, it remains much lower than the peak of 113.1 per 10,000 companies in the Financial Crisis. This is because the number of companies on the effective register has more than doubled over this period.

The number of registered company insolvencies in England and Wales was 1,671 in December 2025, 10% lower than in November 2025 (1,850) and 13% lower than the same month in the previous year (1,919 in December 2024). The total number for 2025 reached 23,938, just 58 more than those seen in 2024, and 5% lower than 2023, which had seen a 30-year high annual number of insolvencies.

Throughout 2025, CVLs accounted for 77% of insolvencies, while compulsory liquidations accounted for 16%, with administrations at 6% and CVAs were just 1%.

CONSUMER DEMAND

Consumer Confidence improved marginally from -17 in December to -16 in January pointing to renewed resilience and a slight improvement post-Budget. Confidence in personal finances over the next four months increased four points to +6, while the major purchase index improved one point to -10. This is ten points higher than it was a year ago. This is set against a negative view on the economic situation, which slipped two points to -31.

Retail sales volumes increased by 0.4% in December, after declining by -0.1% in November and -0.8% in October. Annual sales volumes increased by 1.3%, with increases all segments of retailers.

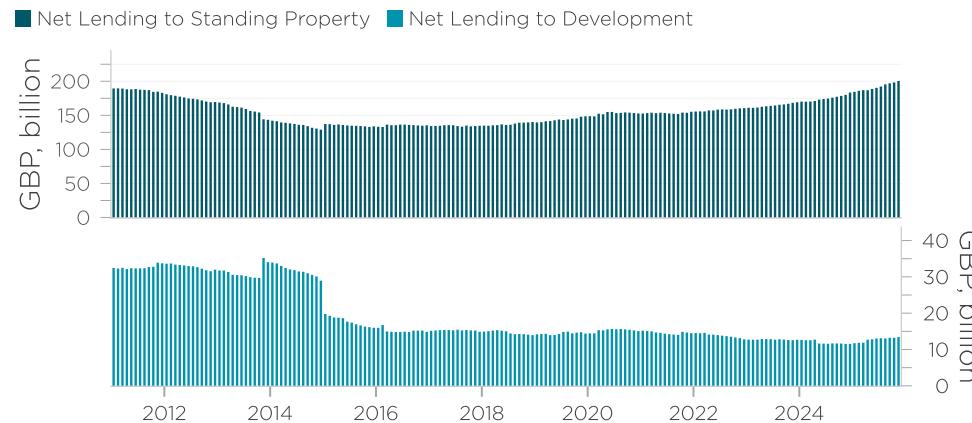
INTEREST RATES



5 YEAR SONIA & 10 YEAR GILTS



LENDING TO COMMERCIAL PROPERTY



INFLATION

CPI unexpectedly increased to 3.4% in December, up from 3.2% in November. CPIH rose by 3.6%, up from 3.5% in November. This was the first increase in inflation since July

Core CPI (excluding energy, food, alcohol, and tobacco) increased by 3.2% in the 12 months to December, the same rate as a month previous.

Alcohol and tobacco, and transport both led the upward contributions to inflation during the month, while housing and household services, and recreation and culture drove negative contributions.

MONETARY POLICY

At its December meeting, the MPC voted to cut the Bank Rate by 25 basis points from 4% to 3.75%. This was the sixth cut since August 2025. The next meeting is on February 5th.

Gilts had been on a downward trajectory until the release of GDP data, which surprised on the upside. Prior to the release, gilts had been in the region of 4.3%, and are now currently hovering at 4.4%.

UK bonds are the highest of all the countries within the G7, partly as a result of the shifts in Pension provision and the country ranks second with the G7 for bonds increases since the beginning of last year, only to Japan. The quantum of quantitative tightening has been tapered, and the Bank of England continues to manage the pace and distribution of gilt sales to minimise market disruption. The 5-year SONIA is down to ~3.7%.

LENDING

Net lending increased significantly during November, reaching £2.49 billion. This was the second largest increase in lending since May 2020, falling just short of the increase seen in August 2025. With lending for the last six months at £12.2 billion, this is the highest six-month period since September 2008. This is being driven in part but not solely by refinancing. Net lending to developments increased during November, which is a positive picture for a development market that has been constrained across all sectors.

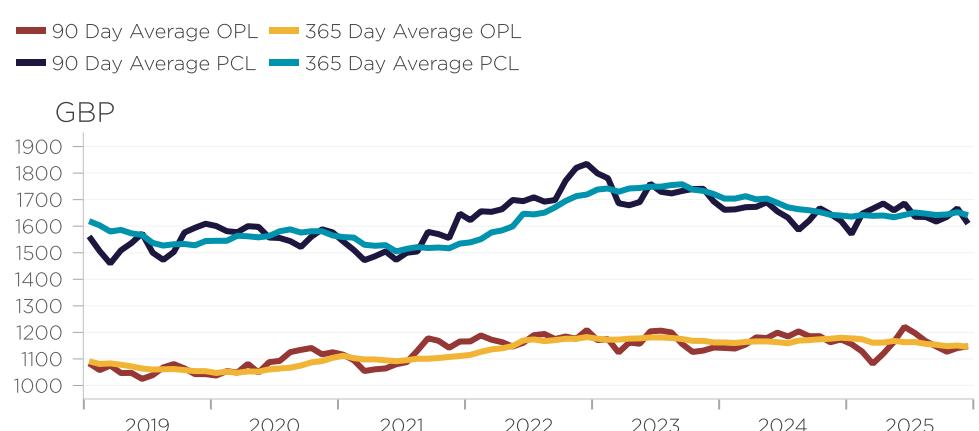
UK MONTHLY MORTGAGE APPROVAL & LENDING



UK MONTHLY TRANSACTION VOLUMES



CENTRAL LONDON CAPITAL VALUES



MORTGAGES

Mortgage approvals, an important gauge of housing market demand, have remained steady for the last few months, hovering around the 65,000 mark, with 64,530 approved in November. They experienced a modest monthly and annual decline of -0.7% and -2.1% respectively. This is the second consecutive monthly decline, however they remained 9% above the 5-year average.

Mortgage rates have seen some modest improvements with average quoted mortgage rates on a 90% LTV in December at 4.42%, below 4.49% the previous month. Taking a lower LTV of 75%, there has also been modest improvement with average rates of 3.97% in December in comparison to 4.06% in November.

SALES & PRICING

Similar to mortgage approvals, transactions have remained pretty stable over the last few months. In November there were 100,350 residential transactions, a modest monthly and annual increase of 1.3% and 7.7% respectively.

In December, UK house prices experienced a 0.4% monthly decrease bringing annual growth to 0.6% at the end of the year. In Q4 house price growth varied by regions, Northern Ireland (9.7%) experienced the greatest annual growth, followed by the North West (3.5%) and Wales (3.2%). The South West (0.5%), the Outer South East (0.1%) and East Anglia (-0.8%) experienced the lowest annual growth.

House prices, transactions and mortgage approvals have all remained relative stable over the later half of 2025-despite wider economic and geopolitical uncertainty – indicating resilience in the housing market. Recent announcements in the Autumn Budget will most likely impact prime (over £2million) and Buy-to-Let markets. However, tax freezes will mean less disposable income for many households which is likely to have a knock-on impact on house prices and demand.

PRIME LONDON CAPITAL VALUES

Prime London has experienced muted growth in capital values due to broader economic and geopolitical uncertainties. Tax policies on non-doms, second homes, and the new 'mansion tax' signal a tighter environment for wealth management and property ownership. The 'mansion tax' will have the biggest impact on London and is likely to impact on valuations, acting as a barrier for house prices in or around the threshold, albeit some of this impact has already been felt given the strong rumors in the lead up to the budget.

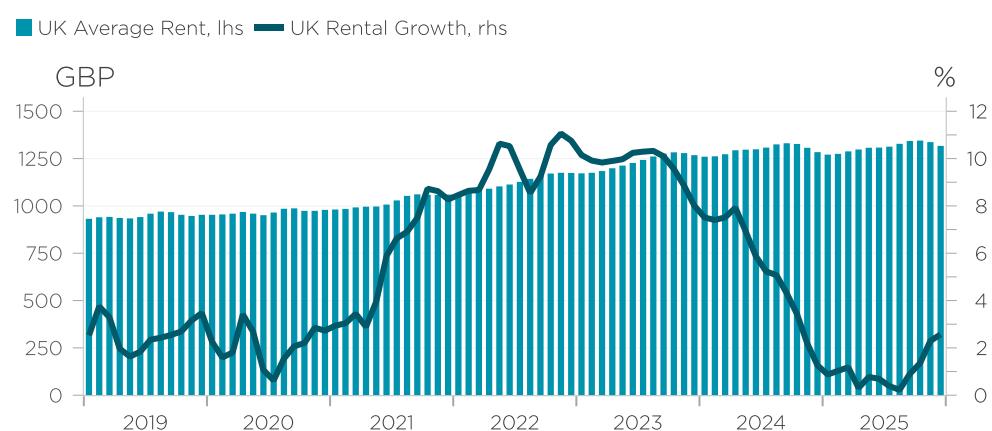
PCL - As of December 2025, 365 day average values in PCL were £1,641 psf, 0.7% below last month but 0.1% above last year. 90 day average values in PCL for December 2025 were £1,610 psf, 3.5% below November 2025. Achieved discounts to asking prices (365 day average) in PCL increased to -4.8% from -4.7% in November.

OPL - As of December 2025, 365 day average values in OPL are £1,145 psf, 0.5% below last month and 3.0% below last year. 90 day average values in OPL for December 2025 were £1,148 psf, 0.6% above November 2025. In OPL, discounts remained at -3.3% in December.

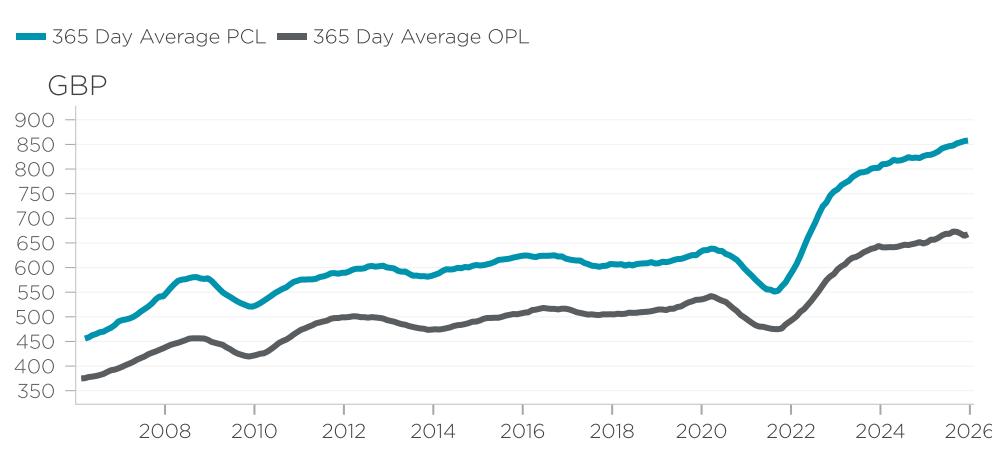
UK LANDLORD INSTRUCTIONS VS TENANT DEMAND



UK ANNUAL RENTS



UK LONDON RENTS



SUPPLY & DEMAND

In 2025, the pace of rental growth continued to slow as demand cooled. This was driven by a decline in net migration, an increase in first-time buyers, and affordability pressures that led to more young adults living with parents. The latter deferring underlying demand rather than satisfying it. Nonetheless the UK continues to face a shortage of rental homes, with the RICS residential survey showing landlord instructions in negative territory throughout the year. Positive wage growth saw income continuing to outstrip rental growth, improving affordability, albeit still above recommended levels for many renters.

Despite a cooling in demand, the imbalance between supply and demand remains and is unlikely to improve in the short to medium term. Increased regulations (recent tax changes, MEES, and the Renters Right Act) are likely to continue to push many private landlords out of the market and despite strong investor appetite in the Build to Rent sector, viability issues have and will continue to impact the level of new supply coming forward.

The RICS residential survey for December 2025 showed tenant demand falling to a net balance of -27%. On the other hand, landlord instructions remained in decline with a net balance of -39%.

RENTAL VALUES

In December, the average UK rent was £1,317, 1.5% below last month, bringing annual rental growth to 2.6%. Weaker tenant demand and a seasonal slowdown have placed some downward pressure on rental growth.

In December 2025 annual rental growth varied across the UK, with the greatest increase in Northern Ireland (9.3%), followed by the North East (6.6%) and East Midlands (4.9%). Yorkshire and the Humber (1.7%), North West (-0.2%) and South East (-1.1%) experienced the lowest levels of annual rental growth.

PRIME LONDON RENTAL VALUES

Prime London rental growth remained subdued with more sustainable rental growth than previous years. The combination of the new 'Mansion Tax', weak house price growth, previous introductions of non-dom changes and overseas buyer SDLT surcharges, is likely to make renting in Prime London more attractive. In addition, the rise in tax on rental income is likely to impact Buy-to-Let landlords, further reducing rental supply and placing some upward pressure on rents. However, the roll out of the Renters Right Act and softer labour market will place some downward pressure.

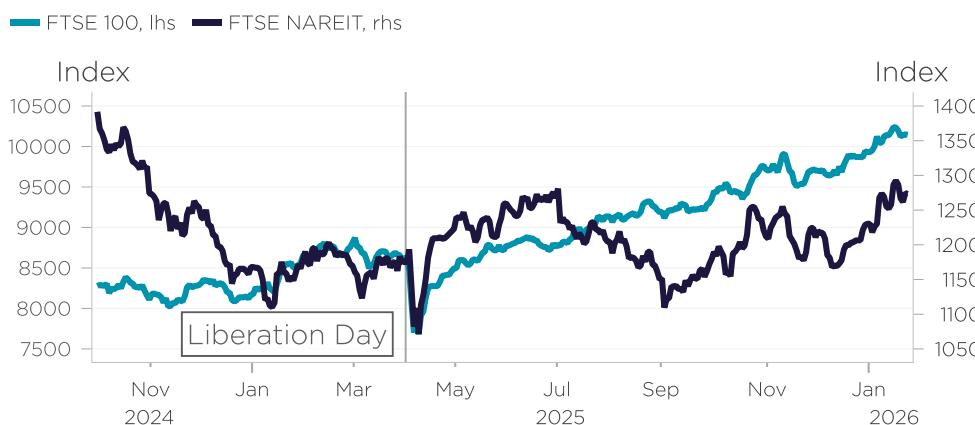
365 day average rental values in December 2025 show rents in PCL are 0.1% above the previous month and 3.8% above last year. Median monthly rental values are more volatile. One bed flats in December 2025 let for £715 pw, 5.9% above last month and 3.9% above the same time last year. Two bed flats let for £1,000 pw, 3.7% below the previous month but 0.5% above the previous year.

365 day average rental values in December 2025 show OPL rents are 0.5% above last month, as well as 2.9% above last year. In OPL median weekly rents for one bed flats let for £554 pw, 0.7% above last month and 4.4% above last year. Two bed flats let for £750 pw, 3.2% above last month and 8.4% above last year.

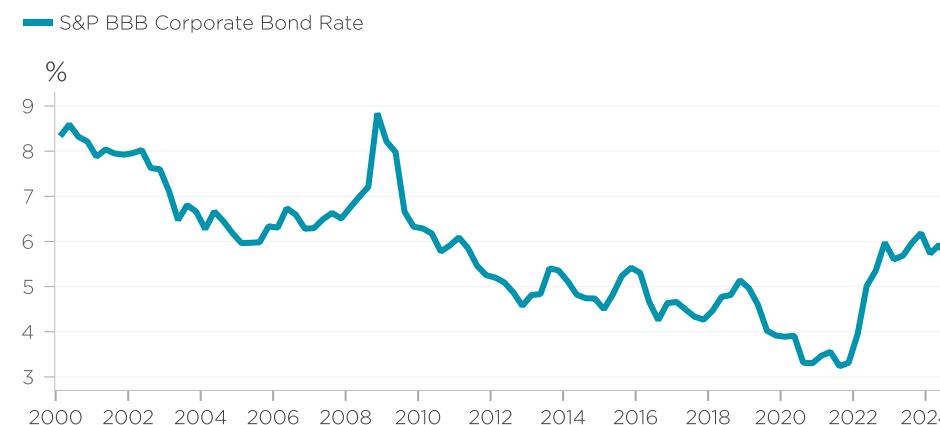
ADDITIONAL KEY CHARTS

Source: FTSE Russell, Federal Reserve, CBOE, ONS, Bank of England, LonRes, Economic Policy Uncertainty, Nationwide, Macrobond, Cushman & Wakefield

FTSE 100, FTSE NAREIT



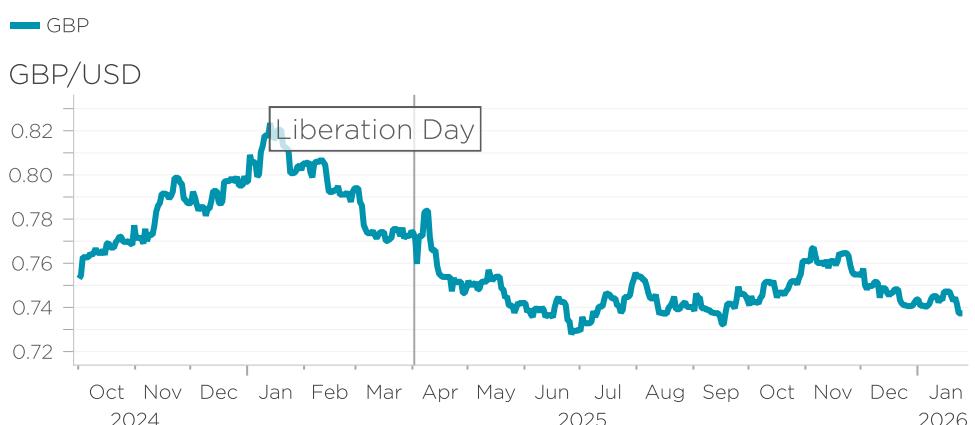
CORPORATE BBB BONDS



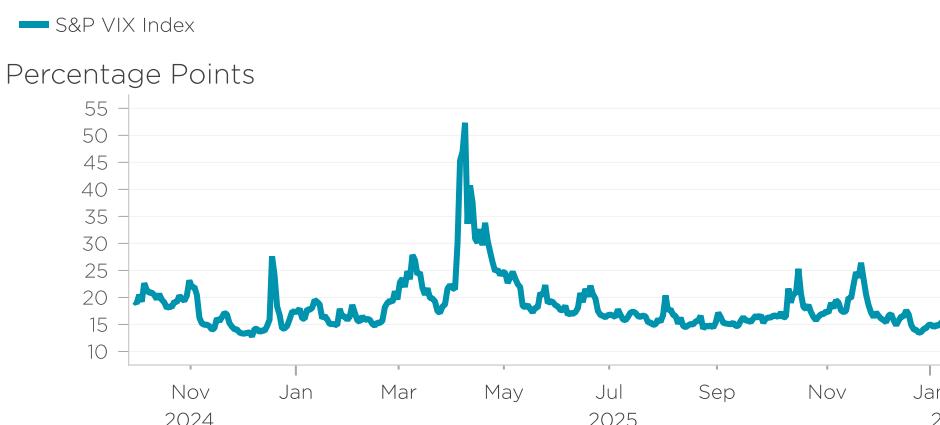
UK EARNINGS GROWTH



GBP USD SPOT RATES



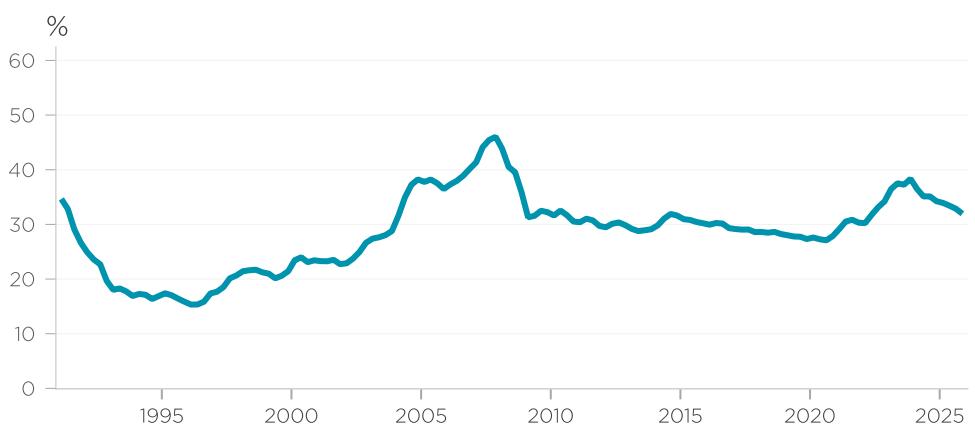
VIX INDEX



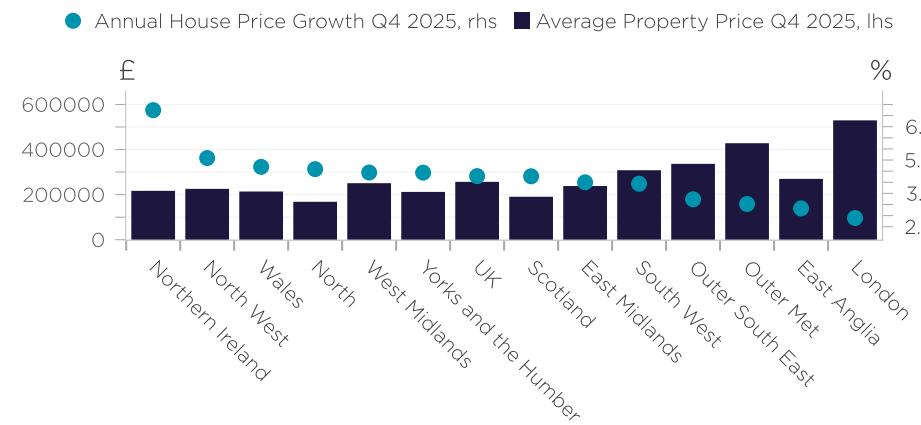
GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX



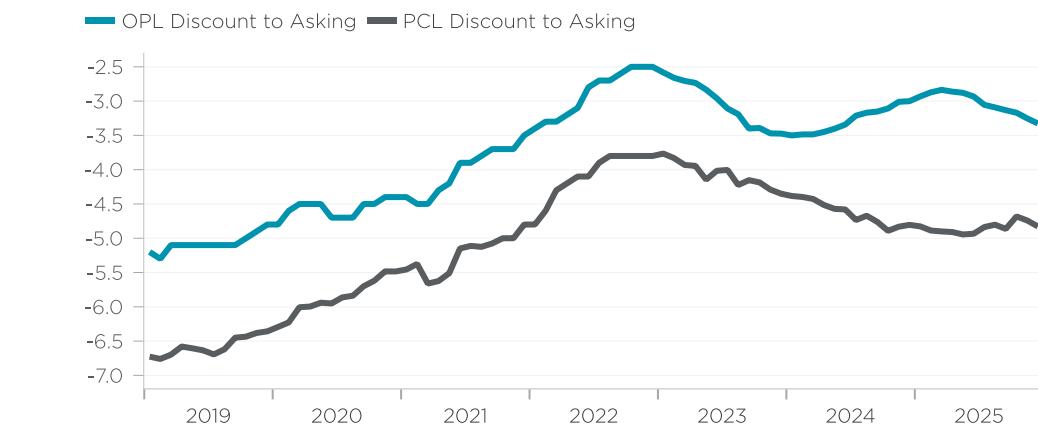
FTB MORTGAGE AS % OF TAKE HOME PAY



REGIONAL HOUSE PRICE GROWTH



CENTRAL LONDON RESI CAPITAL VALUE DISCOUNTS TO ASKING





MARKETBEAT

ECONOMY & HOUSING

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JASON WINFIELD

Head of UK Capital Markets

jason.winfield@cushwake.com

TOM NUTTALL

Head of UK Valuation & Advisory

tom.nuttall@cushwake.com

JONATHAN STICKELLS

Head of Specialist Markets Valuation & Advisory

jonathan.stickells@cushwake.com

DARYL PERRY

Head of UK Research & Insight

daryl.perry@cushwake.com

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