

The Hormuz Situation: Possible Scenarios

As of the end of March 2026

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The Hormuz Situation - Possible Scenarios

On 28 February 2026, US-Israeli *Operation Epic Fury* struck Iran, killing Supreme Leader Ayatollah Khamenei. Iran retaliated by effectively closing the Strait of Hormuz from 2 March, something it had threatened for 45 years but never previously achieved.

The Strait carries approximately:

- 20% of global oil supply (~20 million barrels/day)
- 22% of global LNG exports
- Roughly one third of the world's seaborne fertiliser trade
- Roughly one third of the world's helium supply (critical for semiconductor production)
- Approx. 11% of total maritime trade volume

There appears to be broadly two scenarios that could now play out, as of the end of March 2026:

SCENARIO 1: QUICK RESOLUTION	SCENARIO 2: PROLONGED DISRUPTION
<p><i>A rapid diplomatic or military 'end' to the conflict, with no more major damage to critical infrastructure in the region. The Strait of Hormuz reopens within 6-8 weeks, i.e. before June 2026.</i></p>	<p><i>The conflict becomes prolonged and more industrial infrastructure is dealt lasting damage. The Strait of Hormuz remains closed/severely disrupted well into H2 2026 and perhaps beyond.</i></p>
<p>1.1. SUPPLY CHAIN DISRUPTION</p> <p>Even with rapid resolution, 5-6 weeks of effective closure has already caused:</p> <ul style="list-style-type: none"> • Cascading schedule delays across global shipping networks • Disruptions extending beyond 4 weeks generate "disproportionately larger effects" as delays accumulate • Over 200 ships stranded: helium containers losing value as liquid warms and escapes • Fertiliser prices already up 40%+ (urea); Northern Hemisphere planting season affected • Qatar's helium facilities damaged — even if Strait reopens, market normalisation could take 2+ months due to specialised cryogenic containers (Pulsar Helium CEO) • 46,000+ flight cancellations across Asia-Europe routes due to fuel shortages/cost increases 	<ul style="list-style-type: none"> • OIL: Approximately 20 million barrels/day of supply disrupted — far exceeding the 1973 embargo (4.4 million bpd) or 1979 Iranian Revolution (4.8 million bpd) • LNG: ~20% of global LNG supply removed from market. Qatar's Ras Laffan complex (1/6 of global LNG supply) damaged by strikes. Force majeure declared on Qatari LNG shipments • FERTILISERS: ~33% of world's seaborne fertiliser trade passes through Strait. Urea prices already up 40%+ (\$683/metric ton). Gulf exports include 5 million tonnes of urea yearly from Qatar/Iran, 2 million each from UAE/Saudi Arabia. Impact on Northern Hemisphere food production could be severe. • HELIUM: ~33% of world's helium supply from Qatar, transiting the Strait. Critical for semiconductor manufacturing, MRI machines, space technology. Production halted due to infrastructure damage. Even if Strait reopens, full restoration could take YEARS. • SHIPPING: Container shipping lines (Maersk, MSC) suspended transits. US import rates up 30-50%. Petrochemical run-rates in South Korea/Japan cut 50%. 6,000+ vessels detained • FOOD PRICES: Fertiliser shortages + higher diesel costs = reduced crop yields. "Third wave" of effects will elevate global food prices. Brazil and India most vulnerable.

1.2. FINANCIAL MARKET IMPLICATIONS

- **GILT YIELDS:** Could ease from current ~4.7-5.0% back toward 4.3-4.5% within weeks of confirmed resolution. Some fixed income managers already view current levels as "potentially attractive" *if* energy stabilises
- **SWAP RATES:** Moderate probability of 5-year SONIA swaps pulling back from ~4.25% toward ~3.7-3.8% within 6-8 weeks if oil falls to \$75-80/barrel
- **MORTGAGE MARKET:** Products would likely be restored relatively quickly. British banks could respond pre-emptively to expected rate changes. However, the ~1,000 products already pulled would take weeks to reprice and relaunch
- **TIMELINE ESTIMATE:** 4-8 weeks from a confirmed resolution to meaningful mortgage market normalisation with 2-3 months for elevated swap rates to fully unwind.

1.3. IMPACT ON INFLATION

- **OIL:** Could fall toward \$75-80/barrel within 8 weeks of resolution, but unlikely to return to pre-conflict \$72 due to infrastructure damage and risk premium
- **GAS:** European TTF would ease but remain elevated — EU gas storage at only 46 bcm (vs 60 bcm in 2025, 77 bcm in 2024). Refilling for winter 2026/27 will keep prices above pre-conflict levels
- **JULY OFGEM CAP:** WILL STILL RISE even in quick resolution scenario. Currently forecast at £1,920-1,973/year (up £280-332 from April's £1,641). The cap is calculated using 3-month wholesale price averaging — the March spike is therefore already "baked in." The July cap will be calculated by 27 May based on early April market data.
- **CPI TRAJECTORY:** Q2 2026 ~3.0%; Q3 could still reach 3.0-3.2% due to lagged energy cap effects, but would fall back toward 2.5% by Q4 and potentially reach 2% target by mid-2027

- **GILT YIELDS:** 10-year gilt already at 5.0% (highest since 2008). In prolonged scenario, could reach 5.5%+, well above the 2022 mini-budget crisis levels. 30-year gilt already at 5.45%.
- **SWAP RATES:** 5-year SONIA swaps could reach 4.5-5.0% in prolonged scenario. Late March levels already at 4.35-4.48% for 2-5 year tenors.
- **MORTGAGE RATES:** Average 2-year fixed already at 5.01-5.51%. In prolonged scenario, could reach 5.5-6.0%+. Sub-4% deals would disappear entirely.
- **EQUITY MARKETS:** Gulf equity markets down 15-35% from pre-war levels. S&P 500 declined 2-2.1%. UK REIT market retreating to defensive sectors.

- **Q2 2026:** CPI ~3.0% (BoE March projection)
- **Q3 2026:** CPI 3.0-3.5% (BoE projects energy adding ~0.75pp directly)
- **JULY OFGEM CAP:** £1,920-1,973 (up £280-332 from April) - KPMG now anticipates peak "above 3.5%"
- **Q4 2026:** CPI 2.6-2.7% *if* oil stabilises
- **Oct'26 OFGEM CAP:** forecast at £2,016-2,047 (up £375-406 from April), but if Strait remains closed, could be significantly higher
- **2027:** Return to 2% target DELAYED by nearly a year vs pre-conflict forecast e.g. BCC forecasts 1.9% by 2027 (previously expected mid-2026)
- **HOUSEHOLD INFLATION EXPECTATIONS:** jumped to 5.4% in March from 3.3% in February — risking wage-price spiral

SCENARIO 1: QUICK RESOLUTION

SCENARIO 2: PROLONGED DISRUPTION

1.4. BoE MONETARY POLICY RESPONSE

RATE CUTS could resume by August/September 2026 if inflation trajectory improves

- **MORNINGSTAR** economist Grant Slade expects zero hikes and one cut in late 2026; assuming inflation returns to 2% target by year-end
- **UBS** expects next move to be a CUT rather than hike, though delayed until
- **J.P. MORGAN** sees just one hike in June 2026 after Bailey signalled markets were being "overly aggressive" in pricing multiple hikes

1.5. IMPACT ON GROWTH

Recession likely AVOIDED in quick resolution scenario

- Short disruptions of 2 weeks or less have limited consequences — but at 5-6 weeks, we're already in the zone of "disproportionately larger effects"
- US relatively well-placed due to energy self-sufficiency; Asia most exposed; Europe: somewhere in between
- **Key risk:** even quick resolution doesn't undo the confidence shock or the repricing of geopolitical risk that has already occurred

- **MARKETS** begin to price 3-4 rate hikes (April, June, July, September) totalling ~75-100bps, taking Bank Rate to 4.50-4.75% by Q4 2026

"Markets think the Bank of England will raise base rates by about 75bp this year, a volte-face from the 50bp of rate cuts priced in at the start of this year" - Deloitte

- **THE BOE FACES A CLASSIC STAGFLATION DILEMMA:** monetary policy cannot offset global energy prices but must anchor expectations to hit the 2% CPI target
- **KEY DISTINCTION FROM 2022:** Unlike 2022's demand-resilient inflation, 2026 features supply shocks colliding with fragile demand.

- **MORGAN STANLEY** warning of a "pronounced UK recession at the turn of the year" (late 2026) if energy costs stay high
- **PANMURE LIBERUM** sees recession as a "real possibility" in H2 2026
- **RECESSION** probability estimates range from ~30% chance to +50% depending on oil price duration.

Persistent \$100+/barrel oil + base rate hikes = *high probability*.

- **GDP** growth already near zero (Q1 estimates at 0.1-0.2%)
- **UNEMPLOYMENT** already at 5.2% and rising
- **OBR** had already cut 2026 growth forecast to 1.1% BEFORE the conflict – extended disruption and heightened cost inflation makes a formal recession appear inevitable.

SCENARIO 1: QUICK RESOLUTION

SCENARIO 2: PROLONGED DISRUPTION

1.6. HISTORIC PARALLELS

- **1990 GULF WAR:** Oil spiked from \$17 to \$41/barrel (Aug-Oct 1990) but fell back to \$20 within months of resolution.
- However, the UK still entered recession in 1990-91 (though this was driven by multiple factors including high interest rates and the ERM crisis)
- **KEY DIFFERENCE:** The 1990 shock was shorter and less severe than the current Hormuz closure.

The IEA describes the current situation as: *"the gravest energy shock of all time"* — **Fatih Birol, IEA Executive Director**

"History shows oil shocks are followed by recessions — will it be any different this time?" — **Irish Times**, 28 March 2026

Source: [irishtimes.com/opinion/2026/03/28](https://www.irishtimes.com/opinion/2026/03/28)

- **1973 OPEC EMBARGO:** Oil quadrupled (\$2.90 → \$11.65). World income growth fell from 6% to 1.4%. World trade contracted 7.3%. US recession Nov 1973 to March 1975.
- **1979 IRANIAN REVOLUTION:** Oil doubled (\$15 → \$39). Volcker's Fed hiked to 20%. Double-dip recession. Unemployment reached 10.8%.
- **CURRENT DISRUPTION:** 20 million bpd disrupted — FAR exceeding both 1973 (4.4 million bpd) and 1979 (4.8 million bpd)
- **ALLIANZ ESTIMATES:** Global GDP +2.6% (down 0.5pp from baseline), inflation up (US 3.2%, Eurozone 3.0%), trade growth just 1.5%

Source: [allianz.com/en/economic_research](https://www.allianz.com/en/economic_research)

- **PROLONGED SCENARIO:** Up to \$2.2 TRILLION in global GDP losses (2-3% of global GDP). Gulf economies face GDP declines of ~22%.
- **MITIGATING FACTOR:** Modern economies use same oil volume despite 4x GDP growth since 1973, reducing vulnerability. But the SCALE of this disruption is unprecedented.

POTENTIAL IMPACT ON UK REAL ESTATE MARKETS:

SCENARIO 1: QUICK RESOLUTION

SCENARIO 2: PROLONGED DISRUPTION

- Residential Transaction market could recover relatively quickly IF mortgage products are restored and swap rates normalise do anything like their February levels.
- Pre-conflict momentum was positive: February 2026 saw highest number of new house listings in a decade; sales at decade-high levels

BUT:

- The Renters' Rights Act (1 May 2026) implementation proceeds regardless, adding regulatory uncertainty on top of geopolitical uncertainty
- Landlord sell-off may actually ACCELERATE as some use the conflict as additional motivation to exit before May 1st.

A. RESIDENTIAL TRANSACTIONS:

- **UK Finance** already forecast 1% decline in transactions for 2026 (1.20m vs 1.21m in 2025) BEFORE the conflict
- Nearly 1,000 mortgage products pulled since conflict began
- Average borrowing costs up ~£900/year on a £250,000 mortgage
- 1.8 million fixed-rate mortgages expiring in 2026 — borrowers face significantly higher rates at renewal
- Pre-conflict momentum (0.8% house price growth in March, rising loan approvals) has stalled

"Needs-based sectors like residential are likely to be relatively insulated. Equally, assets on long leases are less exposed" — L&G

B. PRICES:

- Resurgent inflation would feed through into a higher cost of money, which would put upward pressure on property yields. At the same time, a hit to the wider economy from higher energy costs and inflation could dampen occupier demand.
- London faces heightened risk of domestic-driven price falls
- Short-term price pressure especially on higher-end properties (£500k+)

BUT:

- Supply shortages may provide a floor. UK housing undersupply is structural.
- Prime markets could also receive a demand bump from either/both HNWI outflows reversing away from the conflict zone and Middle Eastern capital & individuals seeking a safe haven.

C. DEVELOPMENT VIABILITY

- Construction costs rising through higher energy prices (bricks, cement, glass, asphalt, insulation all energy-intensive)
- Lead times extending for steel, aluminium, M&E equipment
- UK construction output already in fourth consecutive 3-month decline
- Elevated risk of delays, cancellations, and insolvencies — especially private housing and commercial schemes

D. REFINANCING RISKS

- £30bn+ of CRE loans due for refinancing in 2026
- Legacy low-cost debt (originated 2020-21 at sub-2% swap rates) now maturing into a 4%+ swap rate environment
- Structures that worked in 2020-21 often no longer fit today's interest rate environment

Market Factor:	Scenario 1: Quick Resolution	Scenario 2: Prolonged (3-6 months)
Oil price	\$75 to \$85/bbl	\$100 to \$130+/bbl
UK CPI peak	3.0% to 3.2%	3.5% to 4.0%+
Bank Rate end-2026	3.50% to 3.75%	4.00% to 4.75%
5yr SONIA swap	3.7% to 3.9%	4.3% to 5.0%
UK recession probability	20-30%	Over 50% likely
House prices	Flat to +1% yoy	Flat to falls of -2% yoy

This scenario analysis incorporates data from web research by Allsop, including Perplexity AI searches conducted March 2026 and multiple primary sources including : Bank of England, OBR, IEA, Chatham Financial, Morningstar, Bain Capital, L&G, Deloitte, ING, Morgan Stanley, J.P. Morgan, UNCTAD, Atlantic Council, Bruegel, Cornwall Insight, Ofgem, various UK government publications, and other industry analysis.

This analysis represents potential scenarios, not predictions.

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