# Commercial quarterly examiner

Economy | Offices | Industrial | Retail | Outlook

Q2 | 2026

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# Contents



# 1. Key takeaways

**Geopolitical risks remain elevated, but their economic impact has been less severe than feared,** despite the collapse of the June Middle East peace agreement and renewed hostilities. Artificial intelligence continues to underpin the medium-term economic outlook and the IMF expects AI-driven investment and productivity gains to offset much of the drag from geopolitical tensions. The UK economy has remained resilient, and the Bank of England sees little evidence of a significant deterioration in growth. In a similar vein, UK inflation has for the moment confounded fears of a spike driven by rising fuel prices.

**Global equity markets delivered a strong recovery in Q2.** Despite continued geopolitical uncertainty, easing oil prices and falling inflation concerns supported risk assets, with semiconductor and AI infrastructure companies outperforming and offsetting weaker performance from traditional sectors such as energy. UK commercial real estate fundamentals remain stronger than public market valuations imply. Occupier demand for prime offices, retail and logistics assets is still robust. Bond yields remain elevated and may place further upward pressure on property yields but the consensus view that there is little likelihood of a change to Bank Rate in 2026. There are, however, expectations of at least one 25 bp cut in 2027. Some houses are more bullish and expect Bank Rate to reach 3.00% or lower by the end of 2027.

**The UK commercial property market faces a challenging backdrop.** Higher financing costs, geopolitical uncertainty and elevated gilt yields continue to suppress transaction activity and capital values, but positive returns are being sustained by robust income returns and rental growth rather than capital appreciation. Investment capital is available but remains highly selective in its deployment. Investment transaction volumes remain below long-term averages and refinancing dominates new lending, although liquidity continues to improve and portfolio transactions and corporate M&A are providing an increasingly important source of market activity.

**Expectations for UK commercial property returns have been downgraded but remain positive.** Consensus forecasts have been revised lower in response to geopolitical uncertainty, higher bond yields and a slower path for interest rate cuts, with the House View now forecasting All Property total returns of around 5% in 2026, compared with 9% at the start of the year. Income and rental growth should continue to underpin returns despite limited capital growth. Investors appear to be delaying acquisitions until macroeconomic uncertainty eases, but stable property yields and the Bank of England's willingness to look through temporary energy-driven inflation suggest a repeat of the sharp valuation correction seen in 2022 is unlikely. We expect returns to climb to an annualised 7% over the next three years.

# 2. The UK economy

- **Risks to the global economy from the war in the Gulf remain elevated but their economic impact has been less severe than feared. The IMF expects AI-driven investment and productivity gains to offset much of the drag from geopolitical tensions.**
- **Likewise, the UK economy has remained resilient despite global uncertainty. GDP is estimated to have grown by 0.7% in the three months to May following growth of 0.4% in the three months to February.**

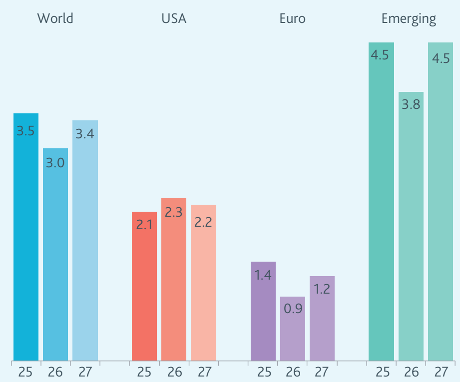
The global geo-political environment remains threatening but the worst-case scenarios circulating last quarter have not materialised. Since the start of the latest conflict in the Middle East in February, President Trump has claimed victory and an end to hostilities on more than 20 separate occasions. On 17th June, a Memorandum of Understanding provided a 60-day window to negotiate a permanent settlement; the re-opening of the Straits of Hormuz; the end of the US naval blockade of Iranian ports; and the lifting of sanctions on Iran and the release of frozen Iranian assets. Twenty-one days later the agreement collapsed as Iran re-commenced attacks on shipping and the US returned to targeting Iranian infrastructure. In the early days of the conflict, the price of oil almost doubled peaking at $140 /barrel. Since then the price has settled back around $90 despite intermittent hostilities.

## Global outlook

In July's update to April's World Economic Outlook (WEO) subtitled, "Global Economy in Crosscurrents of War and Technology", the IMF has again downgraded its 2026 global growth forecast by 0.2% to 3.0%. The forecast for 2027 has increased to 3.4%, meaning anticipated growth remains unchanged on a cumulative basis. The modest slowdown this year reflects the effects of the war in the Middle East being partly offset by "accelerated demand-driven momentum in the global technology cycle thanks to advances in artificial intelligence (AI) and its adoption". Global headline inflation is expected to increase from 4.1% in 2025 to 4.7% in 2026 before declining to 3.9% in 2027.

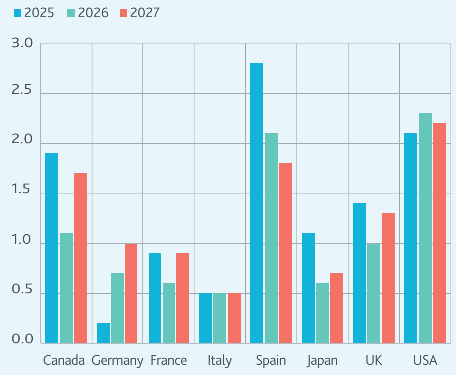
Growth in advanced economies is projected at 1.7% in 2026 and 1.8% in 2027. Outcomes remain uneven within the group. Net energy exporters benefit from higher energy prices, whereas net energy importers experience a drag unless they are lifted by technology-related activity. In the United Kingdom, growth is projected to fall to 1.0% in 2026 before recovering to 1.3% in 2027 as the energy shock fades.

**GDP forecasts by region, by year (%)**




Source: IMF, June 2026

**GDP forecasts by country (%)**




Source: IMF, June 2026

## Domestic UK outlook

More optimistically for the UK's medium-term outlook, Capital Economics' AI Economic Impact Index, ranking countries according to innovation, adoption and implementation places the UK second only to the USA. The UK's surprisingly high ranking is attributed to strong research capability; a vibrant AI start-up ecosystem; and favourable conditions for adopting AI despite weak recent productivity growth.

The UK economy appears to have been more resilient in the face of rising energy costs linked to the Middle East conflict than had been feared. But the British Chambers of Commerce said,

"The Iran conflict is having real-world consequences for UK firms. Rising energy prices and shipping disruption are increasing costs and creating uncertainty across the economy..."

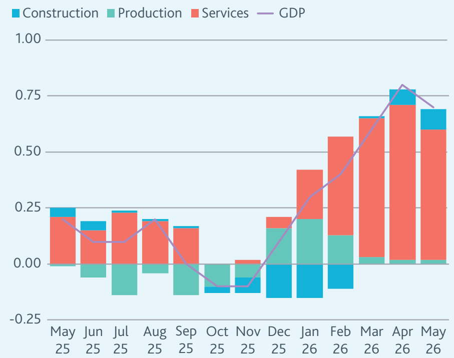
UK monthly real GDP is estimated to have grown by 0.1% in May 2026, following a 0.1% contraction in April 2026. In the three months to May, GDP is estimated to have grown by 0.7% compared to the previous three-month period, following growth of 0.4% in the three months to February.

The largest contribution to quarterly growth once again came from the service sector driven by growth from information and communication; professional, scientific and technical and human health and social work activities. Pharmaceutical manufacturing was the largest positive contributor to the 1.6% growth in manufacturing output in the three months to May 2026. Construction output is estimated to have increased by 1.6% in the three months to May 2026 compared with the three months to February 2026. The largest positive contribution came from new private commercial work, which grew by 4.0%.

Over the longer term, GDP is estimated to have grown by 1.3% in the 12 months to May, compared with the same period twelve months ago. Services grew by 1.7% and manufacturing output grew 2.3%. But construction shrank by -1.8%.

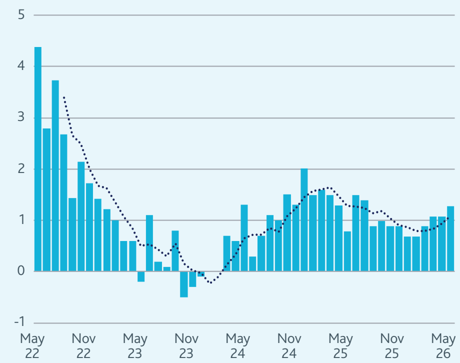
To date, business surveys and other indicators have not provided much evidence that the conflict had led to a rapid deterioration in the outlook for UK economic growth, although the outlook for growth is expected to be subdued. According to July's S&P Global UK PMI UK private sector output decreased in June, with the service sector contracting for the second month. Although new orders and employment decreased, business activity expectations improved slightly from May's 13-month low. The so far limited domestic economic impact of the Iranian War was illustrated as inflationary pressures cooled again in June. The latest data indicated the slowest rises in input costs and output charges since March.

**GVA% (3 month on 3 month growth)**



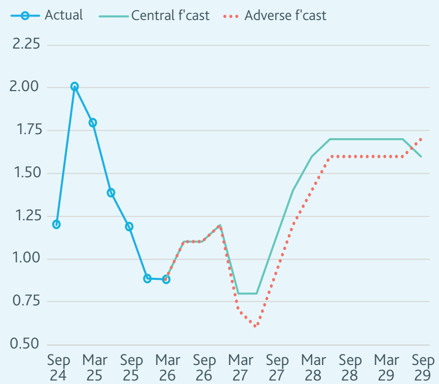

Source: ONS, July 2026

**UK economic growth y-on-y**




Source: ONS, July 2026

**GDP index and July's MPC forecasts**




Source: ONS & Bank of England, July 2026

# 3. Inflation and prices

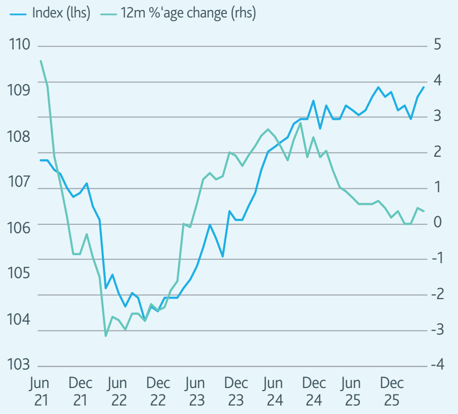
- **The 12-month rate of inflation fell to 2.6% in June, the lowest rate since March 2025 as petrol prices eased for the first time since the start of the conflict in the Middle East.**
- **Annual wage growth excluding bonuses slowed to 3.4% in the three months to May. Although average pay rose by 0.3% in the year to May, continued concern among British adults about their personal finances over the next six months may weigh on consumer spending.**

Recent data has confounded expectations of rising inflation following the start of the conflict in the Middle East. The latest CPI numbers indicate that 12-month inflation fell to 2.6% in June down from 2.8% the previous month and from 3.3% in March. This is the lowest rate since March 2025. Transport, and motor fuels, were the major contributors to lower inflation as petrol prices eased for the first time since the start of the fighting in the Gulf. This trend, however, may not survive the breakdown of peace negotiations and thirteen consecutive days of US strikes and Iranian retaliation. The price of Brent crude surged by $30 a barrel to $102 on the latest outbreak of fighting but remained below the April's $126 per barrel peak, and prices have since fallen back.

Other measures point to a reduction in inflationary pressures as core inflation – the rate excluding energy, food, alcohol and tobacco – continues to fall, reaching 2.6% in June from 3.1% in March, but as previously noted this remains above the 2.1% average registered between the Global Financial Crisis (GFC) and the pandemic. Service sector CPI inflation decreased to 3.6% y-on-y in June from 4.5% in March.

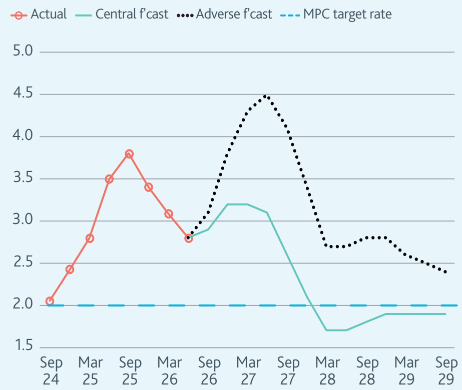
Annual wage growth excluding bonuses continues to slow, decreasing to 3.4% in the three months to May, compared to 3.6% in the three months to February. On a real basis, average pay increased by 0.3% in the year to May slightly easing the cost-of-living crisis although polling data from Ipsos UK shows that 76% of British adults remain anxious about their personal financial situation over the coming six months which may point to a reduction in consumer expenditure.

**Real pay index, sa (May 2005=100)**



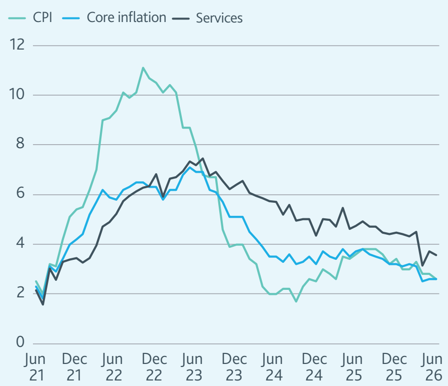

Source: ONS, July 2026

**Annual CPI and July's MPC forecasts**




Source: ONS & Bank of England, July2026

**CPI inflation (%pa)**




Source: ONS, July 2026

# 4. Stock markets, interest rates & asset yields

- **Global stock indices slipped in June but still recorded their best quarterly outturn since 2020 as markets reacted to a continued fall in oil prices. But the UK's FTSE 100 disappointed as the performance from the energy sector which boosted performance in Q1 acted as a brake in Q2.**
- **The FTSE REIT index returned to growth as investors rejected the narrative circulating at the end of Q1 that had assumed interest rate increases would be likely to combat renewed inflationary pressure. The consensus view now is that there is little likelihood of a change to Bank Rate in 2026. There are, however, expectations of at least one quarter point cut in 2027 if not more.**

## Global and US markets

Equity markets remain volatile. Global stock indices slipped in June but still recorded their best quarterly performance since 2020 as markets reacted to a continued fall in oil prices, following the interim agreement between the US and Iran, reducing inflation concerns and improving confidence across markets. In Q2 the MSCI World Index grew by 13.8% in USD terms.

In the USA, the tech-focused NASDAQ index rose by 24.2% in Q2 while the broader based DJIA and S&P 500 increased by 15.3% and 17.5% respectively. US equity market investor focus is shifting away from the "Magnificent 7" towards the next phase of AI, particularly semiconductor firms, which have recently driven a disproportionate share of market gains. The latest fashionable acronyms include the "FAB 10" and "MANGOS", shorthand for the widening group of AI-related leaders, including Meta, Anthropic, Nvidia, Google, OpenAI and SpaceX. The NASDAQ welcomed SpaceX in June as an IPO of just over 4% of the company raised $75 bn at $135 per share valuing the business at an astonishing $1.75tn. Open AI and Anthropic are expected to list later in the year if market conditions remain supportive.

Japanese and South Korean markets have been beneficiaries for investors' enthusiasm for semiconductor and AI infrastructure stocks. The Nikkei gained 35.0% in Q2 and South Korea's KOSPI was the standout major equity market during Q2, gaining approximately 55–60% over the quarter. By the end of June, it had almost doubled since the start of the year.

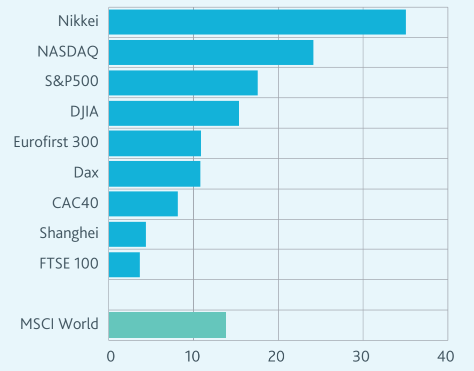
## European and UK markets

European stocks ended June at an all-time high. The broad-based Eurofirst 300 index gained 10.9%. But the UK's FTSE 100 rose by just 3.6% as energy sector stocks, which have a large presence on the index and which had boosted performance in Q1, acted as a brake in Q2. BP shares shed -23.0% in Q2 and Glencore, a

**MSCI World index in 2026**

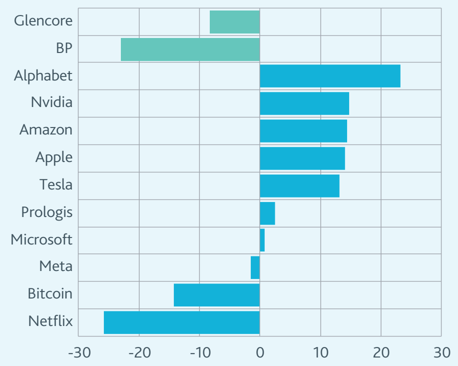

Source: iShares, July 2026

**World stock markets in Q2 2026 (%'age growth)**



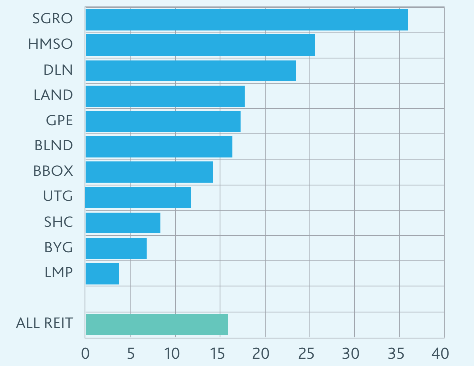

Source: Yahoo Finance, July 2026

**Tech & other selected stocks in Q2 2026 (%'age growth)**




Source: Yahoo Finance, July 2026

**UK Reit price movement in Q2 2026 (%'age growth)**




Source: Yahoo Finance, July 2026

natural resource company and a major producer and marketer of more than 60+commodities, fell by -8.3%.

July's Financial Stability Report by the Bank of England records that valuations in some risky asset markets remain stretched, leaving markets vulnerable to a sharp correction if expectations around growth, inflation or AI profitability change materially. The Bank is not arguing that equities are in a bubble or that a crash is inevitable. Rather, its message is that expected returns may be lower from current valuation levels; the probability of a significant correction has increased; market leadership has become highly concentrated in AI-related companies; and leverage and complex financing structures could make any sell-off more severe.

## UK REITs

The FTSE REIT index returned to growth as investors adjusted their expectations for base rates this year, with many now anticipating that rates will be kept on hold rather than rising. In Q2 real estate equity prices rose by 15.8% having fallen by -9.9% in Q1. The dividend yield on the REIT index decreased from 6.2% to 5.2%.

Announcements issued by several REITs in Q2 emphasised that occupier markets are considerably stronger than investment markets. Higher government bond yields continue to weigh on property valuations but limited availability of Grade A London offices, retail parks or modern logistics warehouses is driving rental growth.

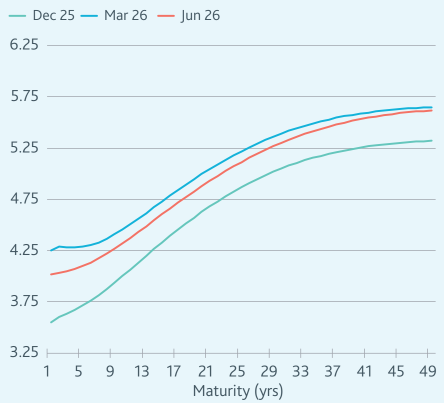
Shaftesbury Capital reported a strong start to 2026, with its prime West End portfolio continuing to benefit from robust occupier demand despite geopolitical uncertainty. Between January and April, the company completed 151 leasing transactions, with rents achieved 5% above estimated MRV and 18% above previous passing rents. Occupancy remained exceptionally high, with just 2.5% of portfolio MRV vacant and a further 1.2% under offer. Covent Garden, Carnaby Street and Chinatown, benefitted from continued demand for space from luxury retail, fashion, food and beverage brands.

In May, Derwent London reported strong leasing activity, with open market transactions 5.2% ahead of December 2025 MRV. The REIT has pre-let all of the office space at its flagship 140,000 sq ft West End office development to Databricks at an average rent of £103 per sq ft with 125 per sq ft on the best space.

For the owners of logistics assets, the most notable strategic development is the increasing focus on AI infrastructure and data centres. Tritax Big Box has identified AI infrastructure and data centres as a major long-term growth opportunity. The company is developing a "power-first" strategy, targeting industrial sites with significant electricity capacity and fibre connectivity that can support hyperscale data centres as well as logistics.

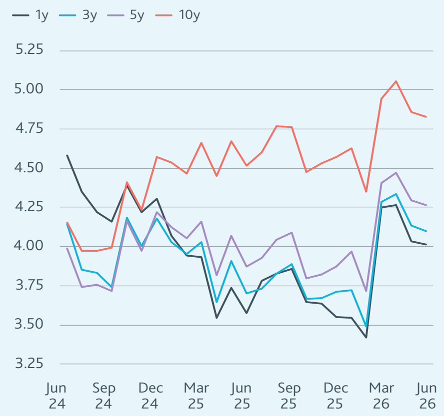
The real estate sector's headlines have been dominated by the bid from the world's biggest logistic investor, Prologis for Segro, the UK's

**Gilt yield curve (%)**




Source: Bank of England, July 2026

**UK gilt yields (%)**

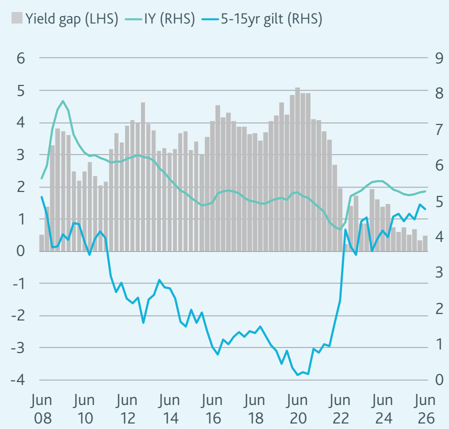



Source: Bank of England, July 2026

**10-yr UK gilt yield**


Source: Bank of England, July 2026

**Property IY – Gilt yield gap (%)**




Source: MSCI & Bank of England, July 2026 largest REIT at the start of Q3. After weeks of negotiations, Segro has now unanimously recommended a "best and final" £14 billion offer representing a 47% premium over Segro's three-month average share price and a 14% premium to NAV. Before the takeover bid commenced, Segro's shares were trading at an 18% discount to NAV. The aggressive pricing of this take-over could support stronger valuations for UK logistics assets. However, the rationale appears to be that Prologis is paying for Segro's AI infrastructure and portfolio of grid connections to support hyperscale data centres.

## Yields and interest rates

In Q2 the yield on UK gilts decreased by 20 bps for shorter maturities and 12 bps for ten year and longer maturities. The yield on the 5-15 year gilt index hardened by -14 bps in the second quarter to 4.77%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q2 of 2.32%. Over the last 12 months, the gilt index has provided a total return of 2.79% as yields have increased by 34 bps since June 2025.

However, this is a fluid situation, and the latest missile exchanges have once again driven the price of Brent higher and ten-year gilt yields have once again increased by 27 bps wiping out any improvement since the conflict started. The market implied ten-year gilt yield currently remains above 5% for the next three years, such are the inflationary concerns.

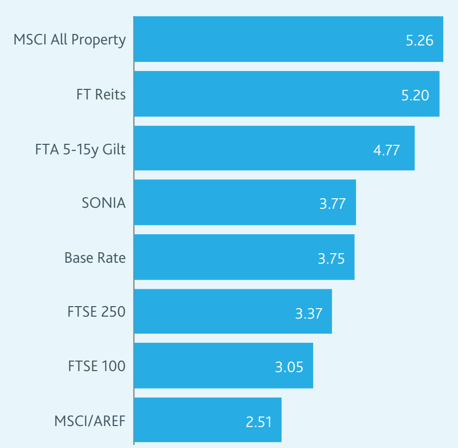
Changes in the risk-free rate are a key metric referenced in the valuation of commercial real estate. A prolonged period with gilt yields at the current level may see valuers re-appraising capitalisation rates. There is already some evidence that property yields have started to de-rate (see "Commercial property market performance" below).

At its June meeting, the Monetary Policy Committee (MPC) recognised that global energy prices had fallen since the previous meeting in response to events in the Middle East.

Taking all the risks to the economic outlook into account, the MPC voted by a majority of 7–2 to maintain Bank Rate at 3.75%. Two members voted to increase Bank Rate by 25 bps, to 4%.

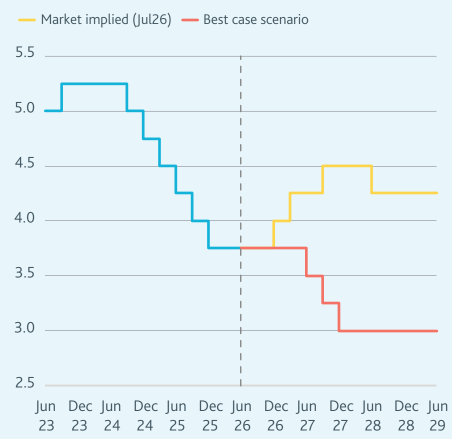
Although the market-implied path for interest rates remains elevated, the median forecast in HM Treasury's June comparison of independent forecasts for the UK economy suggests that there is little likelihood of a change to Bank Rate in 2026. There are, however, expectations of at least one 25 bp cut in 2027. Some houses are more bullish and expect Bank Rate to reach 3.00% or lower by the end of 2027.

**UK asset yields Q2 2026 (%)**




Source: Yahoo Finance & MSCI, July 2026

**MPC Bank Rate & forecast**




Source: Bank of England, APR & Cluttons, July 2026

# 5. Commercial property market performance

- **Quarterly capital growth turned negative in April and has weakened further month on month. Assisted by strengthening MRV growth, property equivalent yields largely remained stable but initial yields are softening. All Property market rental value growth in Q2 increased to 0.9% from 0.5% in Q1 as MSCI's All Property total returns weakened further in Q2 to 1.19% from 1.43% in Q1 on a quarterly basis.**
- **Annual all Property total returns decreased to 5.9% from 6.5% in the year to March and in the year to date have further decreased to 5.4%. Retail continues to be the strongest sector, supported by attractive income returns and improving occupational markets.**

The UK commercial property market remained in a period of transition during the first half of 2026. Investor activity continued to be constrained by macroeconomic uncertainty, higher financing costs and geopolitical risks, resulting in subdued transaction volumes and cautious capital deployment. Continued fighting in the Gulf, weak economic growth, persistent inflation and doubts over the future path of monetary policy have provided strong head winds that have combined to slow the weak recovery in the current cycle.

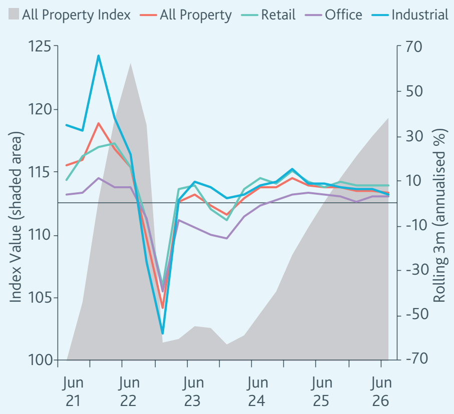
Despite weaker liquidity, property returns remained positive overall, supported almost entirely by income returns and strengthening rental growth rather than capital appreciation. Risk free rates hardened by 14 bps in Q2, and the All Property initial yield itself softened by 2 bps. Consequently, the property initial / gilt yield gap increased by 16 bps to 0.49% but concerns over future downward adjustments to pricing levels remain. Market rental value growth across most segments of the market continue to offset weakening valuations.

Retail continues as the strongest-performing sector after several years of underperformance, while residential and industrial, previously the market leaders, have experienced a loss of momentum. Office performance is stabilising but remains highly dependent upon asset quality and location.

Three-month capital growth turned negative in April and has weakened further month on month. Assisted by strengthening MRV growth, property equivalent yields largely remained stable but initial yields are softening. All Property market rental value growth in Q2 increased to 0.9% from 0.5% in Q1. Income returns of 1.4% remained the main driver of performance in the second quarter. All Property total returns, as recorded by the MSCI Monthly Index, weakened further in Q2 to 1.19% from 1.43% in Q1.

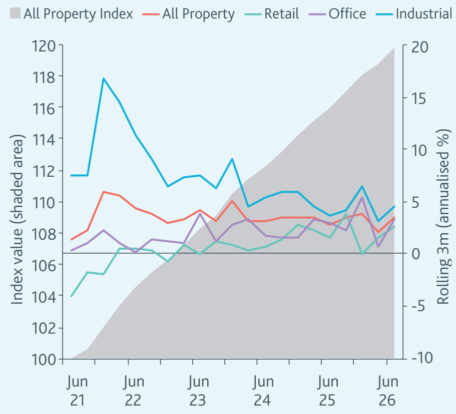
All Property total returns decreased to 5.9% from 6.5% in the year to March and in the year to date have further decreased to an annualised rate of 5.4%.

**Total returns (%) by sector**



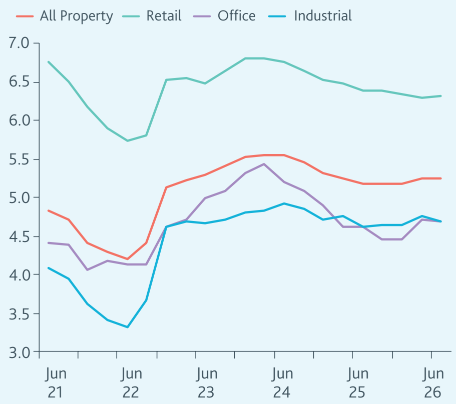

Source: MSCI, July 2026

**MRV growth (%) by sector**




Source: MSCI, July 2026

**Initial yield (%) by sector**




Source: MSCI, July 2026

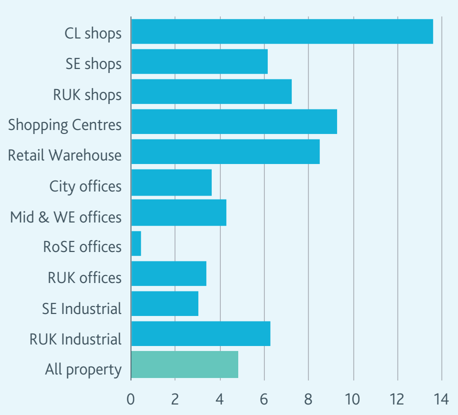
Shopping Centres continue to be the best performing segment after years of under-performance providing a total return performance of 10.3% over the last 12-months.

Offices remain the weakest sector, although the prime City and West End markets have benefitted from falling vacancy rates and stronger occupier demand. However, secondary and regional office markets continue to suffer from weaker occupational fundamentals. Performance increasingly depends upon individual stock selection rather than asset allocation at the broad sector level.

The Industrial sector continues to suffer from slowing momentum as y-on-y total returns declined to 6.2% in Q2 from 7.3% three months earlier. Relatively strong MRV growth of 4.9% y-on-y has been offset by yield expansion, rising vacancy rates and weaker investment demand.

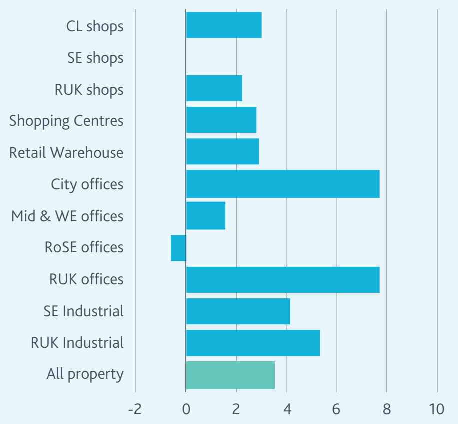
The tables included contain further performance data for UK commercial real estate in Q2 2026.

**Total returns (%) by segment - Q4 2025 annualised**



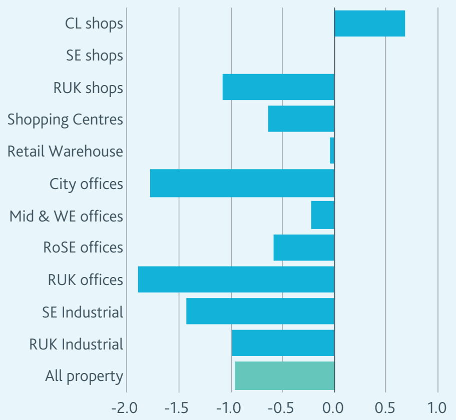

Source: MSCI, July 2026

**MRV growth (%) by segment Q4 2025 annualised**



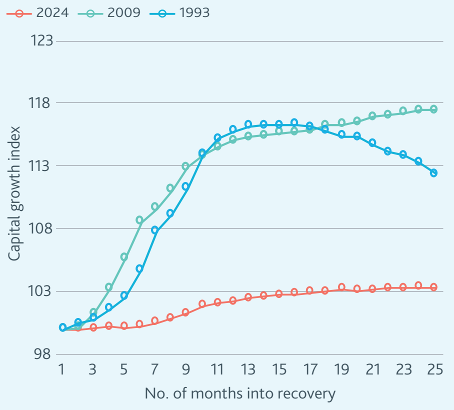

Source: MSCI, July 2026

**Yield impact (%) – Q4 2025**




Source: MSCI, July 2026

**The pace of recovery from market downturn by quarter**




Source: MSCI, July 2026

**Total returns (%)**

| | Jun | 3m | 6m | 12m |
|---|---|---|---|---|
| All Property | 0.4 | 1.2 | 2.6 | 5.9 |
| Retail | 0.7 | 2.1 | 4.0 | 8.6 |
| Office | 0.2 | 0.7 | 1.4 | 2.3 |
| Industrial | 0.3 | 1.0 | 2.6 | 6.2 |
| **Annualised** | | | | |
| All Property | 4.8 | 4.8 | 5.4 | 5.9 |
| Retail | 9.2 | 8.5 | 8.2 | 8.6 |
| Office | 2.6 | 2.9 | 2.9 | 2.3 |
| Industrial | 3.5 | 4.1 | 5.2 | 6.2 |

Source: MSCI, July 2026

**Capital growth (%)**

| | Jun | 3m | 6m | 12m |
|---|---|---|---|---|
| All Property | -0.1 | -0.2 | -0.1 | 0.3 |
| Retail | 0.2 | 0.4 | 0.7 | 1.6 |
| Office | -0.2 | -0.6 | -1.2 | -3.0 |
| Industrial | -0.1 | -0.2 | 0.1 | 1.3 |
| **Annualised** | | | | |
| All Property | -0.8 | -0.8 | -0.3 | 0.3 |
| Retail | 2.4 | 1.6 | 1.4 | 1.6 |
| Office | -2.6 | -2.5 | -2.5 | -3.0 |
| Industrial | -1.4 | -0.8 | 0.3 | 1.3 |

Source: MSCI, July 2026

**Income return (%)**

| | Jun | 3m | 6m | 12m |
|---|---|---|---|---|
| All Property | 0.5 | 1.4 | 2.8 | 5.6 |
| Retail | 0.5 | 1.6 | 3.3 | 6.8 |
| Office | 0.4 | 1.4 | 2.7 | 5.4 |
| Industrial | 0.4 | 1.2 | 2.4 | 4.9 |
| **Annualised** | | | | |
| All Property | 5.6 | 5.7 | 5.6 | 5.6 |
| Retail | 6.6 | 6.7 | 6.7 | 6.8 |
| Office | 5.3 | 5.5 | 5.5 | 5.4 |
| Industrial | 5.0 | 4.9 | 4.9 | 4.9 |

Source: MSCI, July 2026

**MRV growth (%)**

| | Jun | 3m | 6m | 12m |
|---|---|---|---|---|
| All Property | 0.4 | 0.9 | 1.4 | 3.2 |
| Retail | 0.3 | 0.6 | 1.0 | 2.0 |
| Office | 0.3 | 0.8 | 1.0 | 2.9 |
| Industrial | 0.5 | 1.1 | 1.9 | 4.6 |
| **Annualised** | | | | |
| All Property | 4.6 | 3.5 | 2.8 | 3.2 |
| Retail | 4.1 | 2.6 | 2.1 | 2.0 |
| Office | 3.8 | 3.3 | 2.0 | 2.9 |
| Industrial | 5.6 | 4.6 | 3.8 | 4.6 |

Source: MSCI, July 2026

**Net initial yield (%)**

| | Jun | 3m | 6m | 12m |
|---|---|---|---|---|
| All Property | 5.3 | 5.2 | 5.2 | 5.2 |
| Retail | 6.3 | 6.3 | 6.4 | 6.4 |
| Office | 4.7 | 4.7 | 4.5 | 4.6 |
| Industrial | 4.7 | 4.8 | 4.7 | 4.6 |

Source: MSCI, July 2026

**12m performance by strategy relative to All Property average Q1 2026 (%)**

| | Low yield | High yield | High rent | Low rent | Long lease | Short lease |
|---|---|---|---|---|---|---|
| Shops | 1.6 | 1.3 | 2.9 | 1.6 | 0.9 | 3.3 |
| Shopping Centres | -3.8 | 7.3 | 4.4 | 3.1 | 0.9 | 0.9 |
| Retail Warehouses | 0.4 | 4.8 | 1.3 | 2.5 | 1.1 | 1.6 |
| Central London offices | 3.4 | -14.4 | 4.5 | -9.4 | 2.3 | -8.7 |
| RoSe offices | -2.1 | -14.7 | -4.0 | -2.6 | 1.5 | -7.2 |
| RUK offices | 0.8 | -13.6 | | -6.0 | 1.7 | -5.6 |
| Industrials | 0.2 | 1.1 | -0.8 | 1.1 | 0.6 | 0.4 |

Source: MSCI, July 2026

# 6. Investment in property

- **UK All Property Investment volumes fell in Q1 2026 on a quarterly basis but were above the level recorded in Q1 2025. Central London Office investment volumes again disappointed in Q1 as FDI continues to shrink. Portfolio transactions and corporate M&A activity are preferred as investors display greater caution towards the specific risk offered by individual asset transactions.**
- **Liquidity has been increasing since the beginning of the year, but the majority of new lending involves refinancing rather than new investment.**

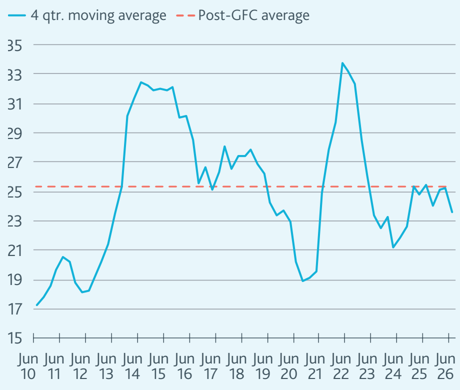
## UK All Property transactions

After a strong end to last year, investment volumes[1] in Q1 2026 fell back but were 3% above the level recorded in Q1 2025 although they were -17% below the long run first quarter average. Offices made up 54% of investment volumes in Q1; retail represented a further 38% and industrials made up the remaining 9%. Preliminary estimates suggest that investment volumes in Q2 decreased by -30% quarter on quarter and were -32% below the long run average second quarter average[2].

This month MSCI reported that current transaction levels are tracking approximately one-third below the same point in 2025, although these figures are expected to improve modestly as "under offer" transactions complete over the coming months. More importantly, according to MSCI, the composition of the investment market is changing. There has been a significant reduction in individual asset transactions as investors display greater caution towards standalone acquisitions. Portfolio transactions remain comparatively resilient and corporate M&A activity is continuing to provide an important source of market liquidity as investors seek scale and diversification.

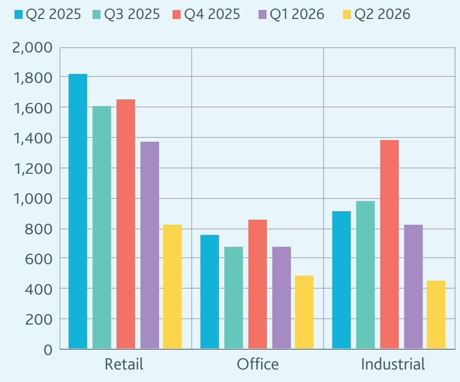
In the Retail sector, lower retail transaction volumes and improving investment performance reflect stronger occupational fundamentals rather than increased investor demand. Office investment volumes remain broadly consistent with previous years, but investment is concentrated on prime assets in top locations. Meanwhile, industrial transaction activity has weakened considerably reflecting a mismatch between the pricing expectations of purchasers and sellers and increasing investor caution.

**All property investment volumes (£bn)**



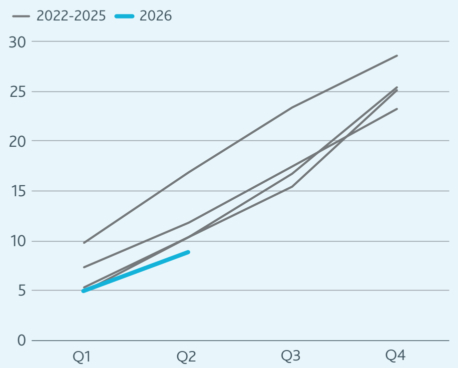

Source: CoStar, MSCI & APR, July 2026

**UK investment volumes by quarter (£bn)**




Source: CoStar, MSCI & APR, July 2026

**Quarterly UK investment volumes 2022-2026 (£bn)**




Source: CoStar, MSCI & APR, July 2026

[1] Investment volumes are the current value of investment transactions adjusted for capital growth.
[2] The latest numbers for Q2 are likely to be revised in the coming months.

## Central London office transactions

Investment volumes in the UK's key Central London office market have been slowly recovering since mid-2024 but have yet to approach the levels enjoyed before the Brexit Referendum. The declining weight of foreign direct investment (FDI) into Central London offices has been a contributory factor. In the latest three-year period from 2023 to present, cross border capital underwrote 50% of transactions, compared to a longer-run average of 70%.

After a strong end to last year, Central London office Investment volumes in Q1 2026 were -30% lower than Q1 2025 and -46% below the long run first quarter average. Preliminary estimates for Q2 indicate that investment volumes increased 26% quarter-on-quarter but were -32% below the long run average second-quarter average[2].

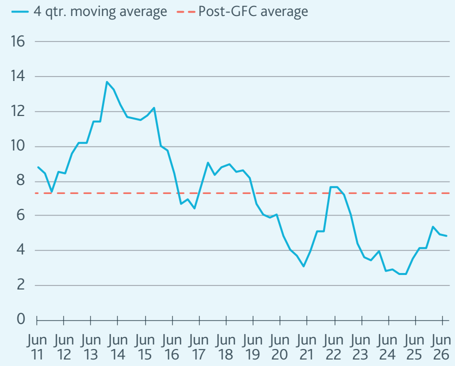
The City made up 69% of Q1 Central London office investment volumes in 10 transactions; Midtown and West End represented a further 20% in 26 transactions and City Fringe, Docklands and Southbank made up the remaining 10% in 20 transactions.

## Lending to the property sector

The domestic lending market continues to support the real estate sector. New lending for UK commercial real estate rose 29% last year to reach the highest level in a decade, according to the latest Bayes Business School market survey released in May. New loans amounting to £52.7 were issued in 2025, with activity driven by non-bank lenders e.g. debt funds and UK banks. Debt funds share of new business rose from 26% in 2024 to 31% in 2025. Increasingly competitive loan pricing saw British banks and debt funds cut rates for prime offices by 45 basis points and 30 basis points respectively. Other lenders followed suit, but they also competed through LTV levels and fees. However, 60% of lending involved refinancing rather than new investment.

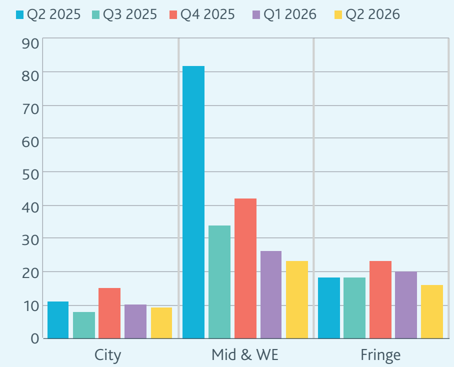
Liquidity has continued to rise since the turn of the year. Outstanding loans from UK banks and financial institutions to real estate businesses grew 12.2% in the 12 months to April, to £149bn, according to Bank of England data, representing the fastest year-on-year growth rate since at least 2010. May's latest figures indicates that outstanding loans have grown a further 0.6% to £150bn.

**Central London office investment volumes (£bn)**



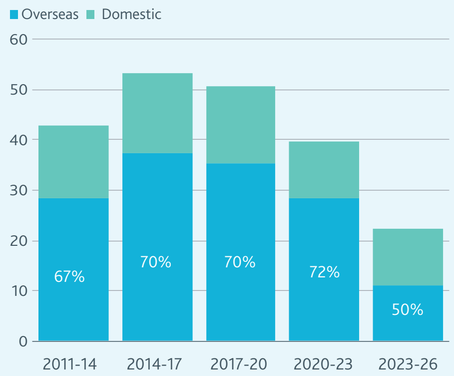

Source: CoStar, MSCI & APR, July 2026

**Central London office transactions by year**



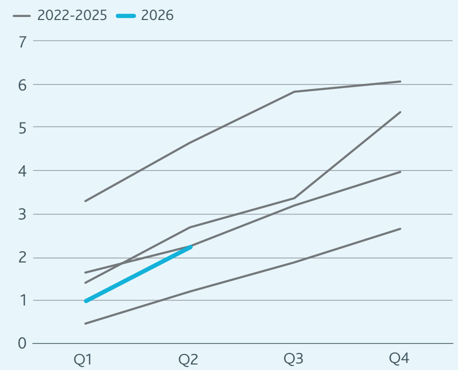

Source: CoStar, MSCI & APR, July 2026

**Overseas investment in Central London offices (£bn)**




Source: CoStar, MSCI & APR, July 2026

**Quarterly CLO investment volumes 2022-26 (£bn)**




Source: CoStar, MSCI & APR, July 2026

# 7. Office focus

Office attendance has stabilised at just over three days a week, concentrated Tuesday to Thursday[1]. Return-to-office mandates have increased attendance but are unlikely to restore the five-day working week. Transport for London data corroborates this. Weekday Zone 1 station footfall in Q2 2026 is 21% below Q2 2019 levels with Tuesdays, Wednesdays and Thursdays remaining the most popular days.

This is driving greater polarisation in the office market, with demand and investment favouring high-quality, well-located buildings that offer strong amenities and support modern working patterns, while secondary stock faces increasing obsolescence. Commute costs, transport reliability, childcare and workplace quality are also increasingly important influences on office attendance.

Ahead of its move into 90,000 sf at the Welcome Building at Temple Quay, Hargreaves Lansdown, is ordering employees back to the workplace three days a week. The new building will offer extensive communal amenity space, including cafés, collaboration areas and wellness facilities, creating a workplace better suited to hybrid working.

Nationwide, the underlying macro-economic drivers of office demand strengthened in Q2. Office based economic output[2] increased by 0.58% in the second quarter having been effectively flat a quarter earlier. The annual rate of growth decreased to 0.95% from 1.02% in Q1 2026 reflecting a period of weakness at the end of last year and start of 2026.

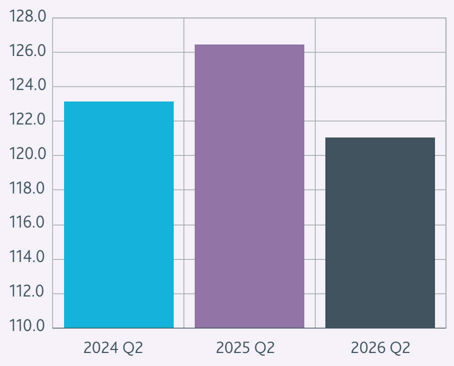
## Central London offices

### Occupational view

- **Grade A availability is tightening across Central London, with supply particularly constrained in the West End; the development pipeline offers limited relief in the near term.**
- **Demand remains concentrated on high-quality, well-located offices with strong amenities, supporting rental growth and giving landlords of "super-prime" buildings strong pricing power.**

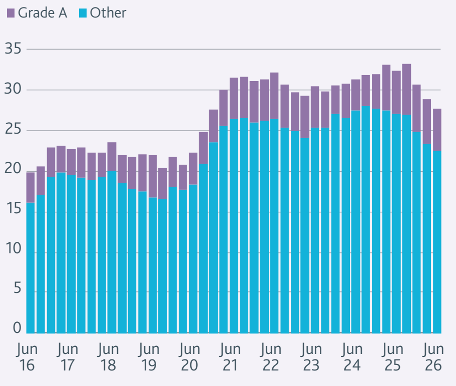
Conditions continue to improve for the Central London office occupational market. Central London office **availability** decreased for the third consecutive quarter in Q2 by -4.0% to

**Transport for London Zone 1 station footfall (millions)**



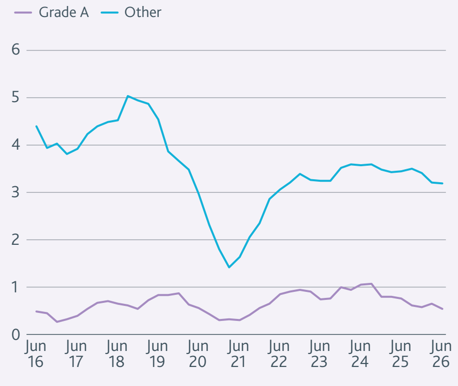

Source: TfL, July 2026

**Central London office availability (msf)**




Source: CoStar, July 2026

**Central London Grade A office take-up (msf)**




Source: CoStar, July 2026

**Vacancy rates**


Source: CoStar, July 2026

[1] Remit Consulting, July 2026
[2] The sum of economic output (GVA) produced by office based industry sectors which has grown at an annualised rate of 2.0% a year since the GFC.

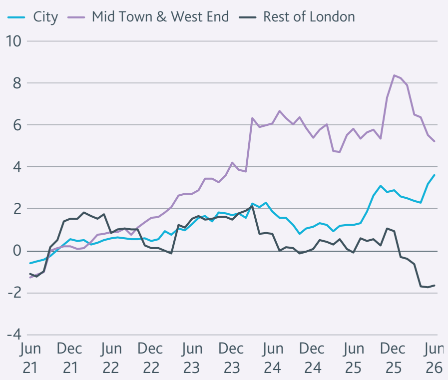
27.7 million sf which represents 20 months' supply at the post-Covid average rate of take-up. The occupational market for "Grade A" space is tighter. Availability for the best office space decreased by -5.5% in Q2 to 5.2 million sf Docklands and Midtown both registered quarterly rises.

As occupational demand continues to focus on "high-quality, well-located buildings that offer strong amenities" the **development pipeline** is shrinking. Office developers have been under pressure from the rising costs of construction materials. Across the Central London office market, an average 859,000 sf of new space has been delivered every quarter over the last 10 years but in Q2 no development completions were recorded. New construction starts in Q2 amounted to just 93,000 sf compared to average starts of 828,000 sf over the last 10 years.

A slowing in the supply of new buildings is placing downward pressure on **vacancy rates** which have descended from their peak at the end of 2025. It is also likely that other consequences of the shrinking supply of new space are a reduction in leasing activity, increased competition for the right space and strengthening rents. Central London MRV growth amounted to 4.6% in the last 12-months with the City seeing a 3.6% increase in MRVs and West End rental values up 5.2% over the same period.

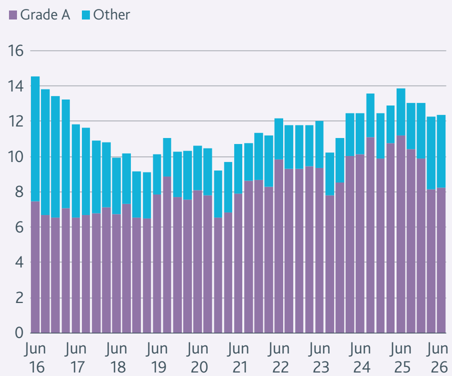
All Central London office **take-up** remained relatively steady, at 3.1 million sf in Q2

**Central London offices MRV 12m (%)**



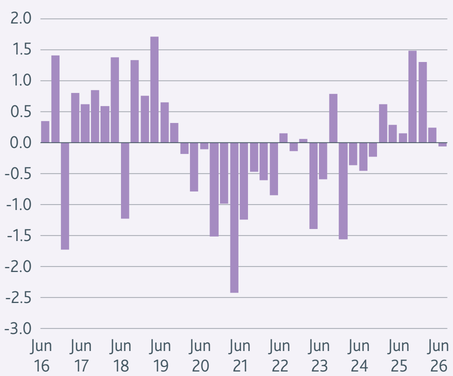

Source: MSCI, July 2026

**Under construction (m sf.)**



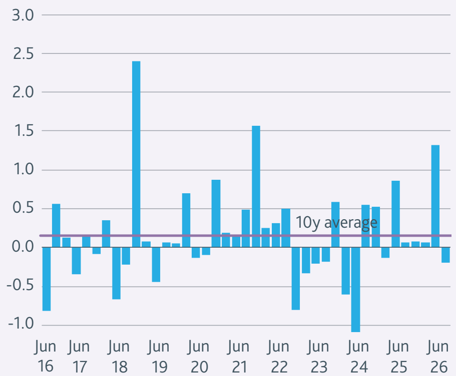

Source: CoStar, July 2026

**Net absorption (msf)**



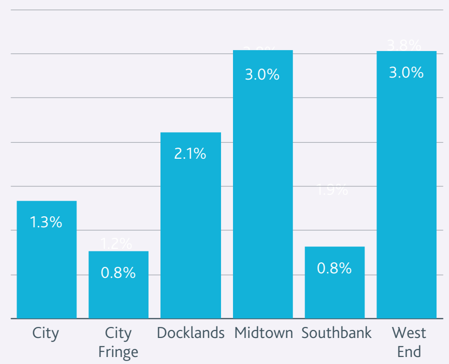

Source: CoStar, July 2026

**Net completions (msf)**




Source: CoStar, July 2026

**12m MRV growth (%)**

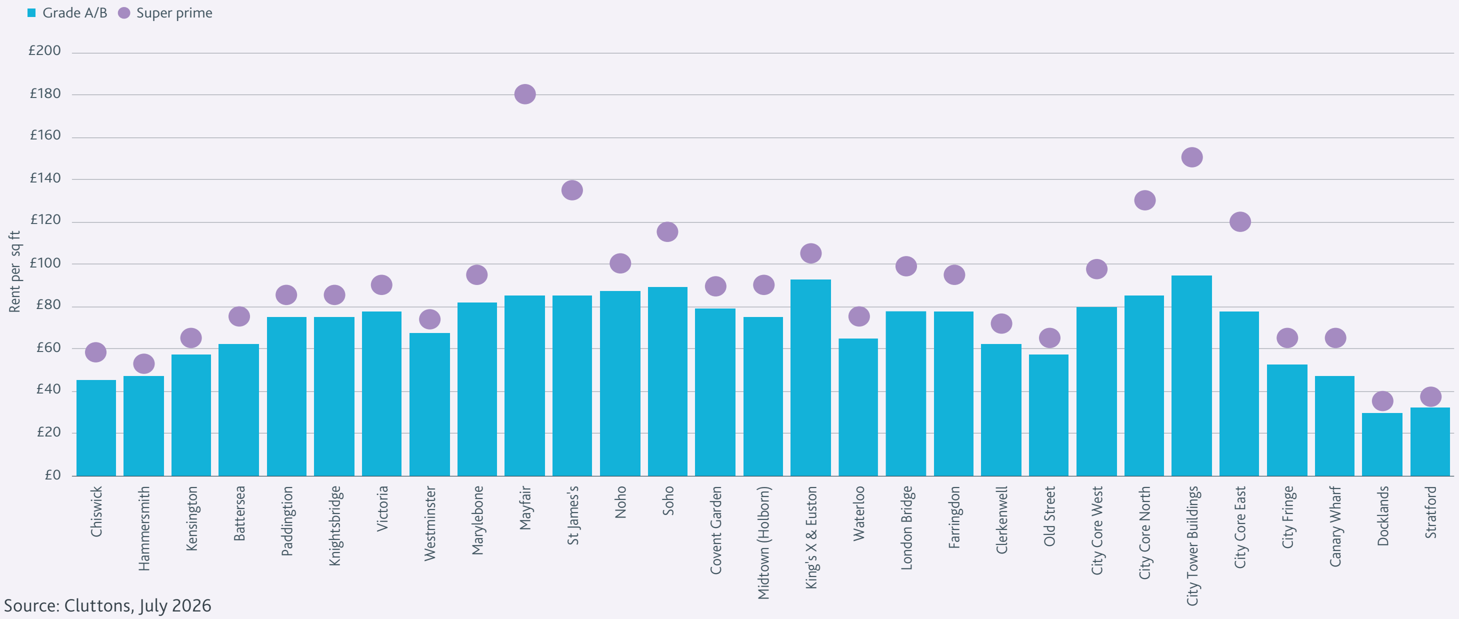



Source: CoStar, July 2026

compared to 3.1 million in Q1. Quarter-on quarter increases were limited to Docklands and Midtown.

Given the scarcity of supply and relatively **strong demand for upper floors** in newly completed buildings and towers in prime locations, landlords of these buildings have strong bargaining power. **Premium rents** are being paid for buildings in core locations. 8 Bishopsgate, EC2 was developed by Mitsubishi Estate London and Stanhope. It has 550,000 sf on 50-floor and facilities occupying 75,000 sf including an auditorium, meeting facilities, food and beverage space and The Lookout viewing gallery. In June US law firm King and Spalding, who already occupied Levels 27–31 and Level 41, took the final available floor on Level 47 on a 12-year lease at £155 psf.

**Central London Grade A & super-prime rents (£psf)**

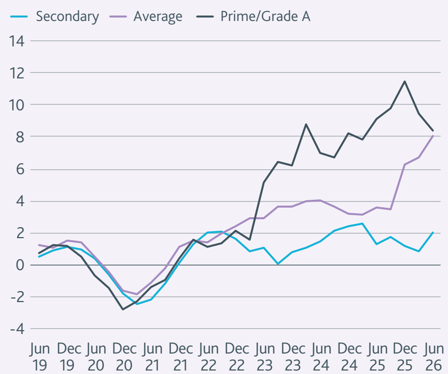



Source: Cluttons, July 2026

**Q2 development pipeline space available v pre-let**

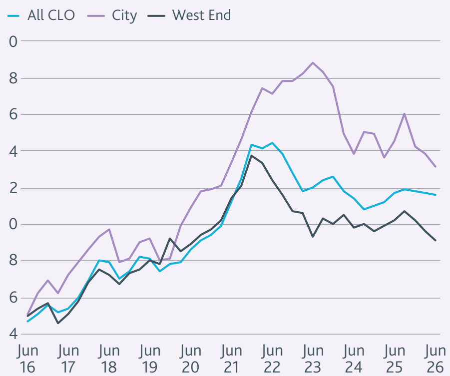

Source: CoStar, July 2026

**Prime v Secondary 12m MRV growth**



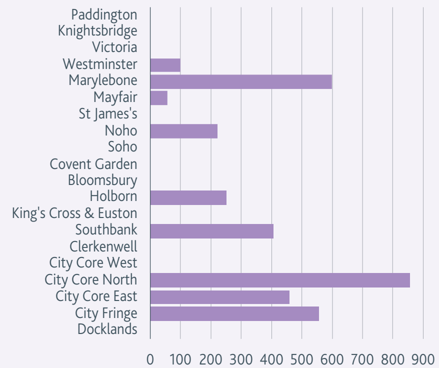

Source: MSCI, July 2026

**Months on market**




Source: MSCI, July 2026

**Central London development completions y-o-y ('000 sf)**




Source: CoStar, July 2026

## Investment view

- **Prime / Grade A offices are continuing to outperform secondary stock, with capital values supported by strong occupational demand, rental growth and more resilient investor appetite.**
- **Investor demand remains selective, with liquidity focused on prime assets and the West End continuing to outperform secondary stock and weaker City assets.**

As the Central London office occupational market has improved the investment market has deteriorated, faced by geopolitical uncertainty, higher risk-free rates and an increased cost of debt. Although, **capital growth** decreased to 0.19% in Q2 from 0.46% in Q1, the West End office market is the only part of the capital's office market that is benefitting from improving capital values. City office valuations fell for a fourth consecutive quarter and are down by 2.43% in the last 12 months.

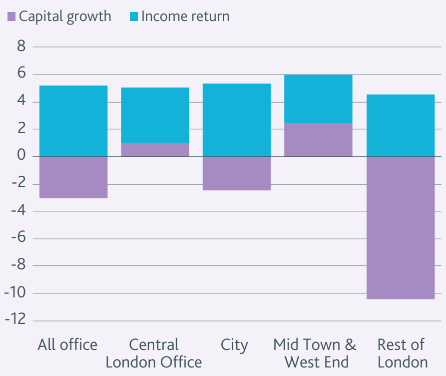
Compared to older, poorer located secondary stock, **Prime / Grade A** offices are enjoying stronger levels of performance. MSCI's analysis by yield quartile range, reveals that prime Central London office capital values have risen by 4.7% in the last 12 months whilst more secondary assets have suffered from declines in capital values of -9.5%.

As top rents in the West End surge past £200 psf and City tower floors let for £150 psf, **Docklands** is enjoying a resurgence in demand for available space in Canary Wharf's towers at £50 – £60 psf. It is likely that this relative value was behind Barclays' acquisition of its Canary Wharf headquarters, One Churchill Place, from Canary Wharf Group jointly owned by the Qatar Investment Authority and Brookfield Property Partners. The £750 million transaction is Europe's largest office deal for almost four years.

A reduction in the number of **overseas investors** has reduced the turnover from investment sales arguably since the Brexit referendum in 2016. Central London office investment transactions numbered 56 in Q1, a decrease from 80 in Q4 2025, and the value of Q1's transactions decreased by -53.6% from £2.842 billion in Q4 to £1.32 billion. Preliminary estimates suggest that the value of transactions in Q2 rose 18.7% to £1.57 billion in 48 transactions.

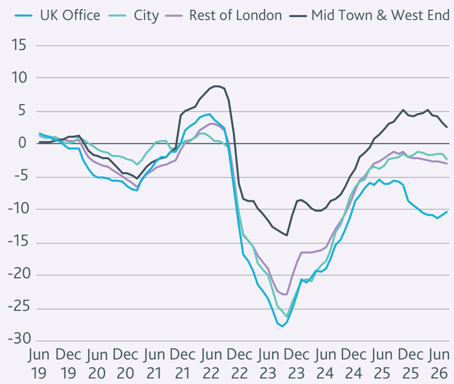
More recently, as global economic turbulence increases, Central London has re-emerged on the radar of overseas investors. In Q2, four transactions represented a combined FDI into the UK of £585.8 million providing evidence of the enduring attraction of **prime West End office investments**. 14 George Street, W1, a Grade A office building

**12m total returns Q2 2026 (%)**



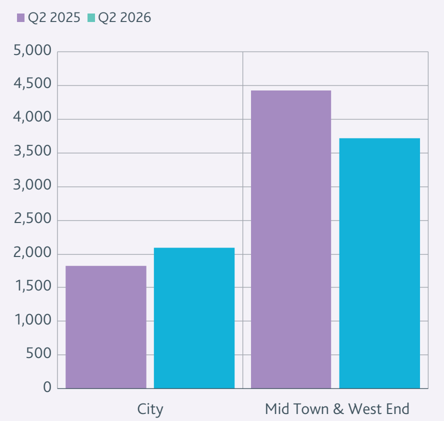

Source: MSCI, July 2026

**12m capital growth (%)**



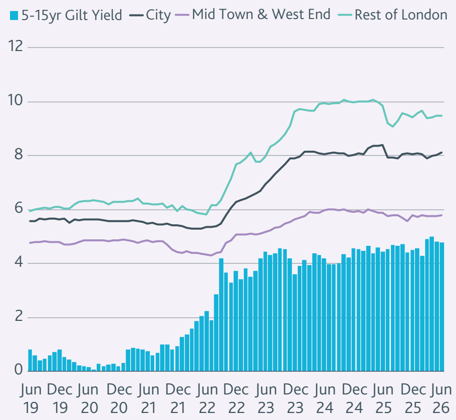

Source: MSCI, July 2026

**Central London office investment volumes (£m)**




Source: CoStar, July 2026

**Equivalent yields (%)**




Source: MSCI & Bank of England, July 2026 located north of Hanover Square near Bond Street's Elizabeth line entrance, comprises 52,000 sf across four floors let to Antin Infrastructure Partners, Trafigura, Ellerman Investments, and Aleph Capital. It has recently been refurbished and upgraded to include an enhanced reception area and the mandatory end-of-journey facilities. In April, Oval Real Estate sold it to a private Singaporean investor represented by BNP Paribas Real Estate for approximately £173 million with a 3.4% NIY having previously acquired it from Chinese Estates in 2024 for £125.39m at a 4.12% NIY.

**Featured investment transactions**

| Building | Price (£m) | Price (£psf) | Yield (%) | Avg. uxp lease term (yrs) | Buyer |
|---|---|---|---|---|---|
| Stirling Square, W1 | 215.00 | 2,297 | 5.29 (NIY) | 4.9 | Deka |
| One Churchill Place, E14 | 750.00 | 722 | | | Barclays (as tenant) |
| Vinters Place, EC4 | 105.00 | 383 | 12.9 (NIY) | 5.3 | Castleforge Partners |

Source: Cluttons, July 2026

# Central London offices

## Summary tables

### Availability (msf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| City | 7.21 | 6.64 | 9.15 | ▼ |
| City Fringe | 3.45 | 3.32 | 4.41 | ▼ |
| Docklands | 2.00 | 1.99 | 2.82 | ▼ |
| Midtown | 7.84 | 7.09 | 7.23 | ▼ |
| Southbank | 3.51 | 3.51 | 2.56 | ▲ |
| West End | 4.80 | 5.11 | 4.74 | ▲ |

Source: CoStar, July 2026

### Take-up (msf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| City | 1.12 | 0.65 | 1.38 | ▼ |
| City Fringe | 0.41 | 0.36 | 0.47 | ▼ |
| Docklands | 0.01 | 0.29 | 0.22 | ▲ |
| Midtown | 0.64 | 1.02 | 0.99 | ▲ |
| Southbank | 0.34 | 0.18 | 0.27 | ▼ |
| West End | 0.65 | 0.61 | 0.78 | ▼ |

Source: CoStar, July 2026

### Vacancy rates

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| City | 10.7% | 9.9% | 14% | ▼ |
| City Fringe | 11.6% | 11.2% | 15% | ▼ |
| Docklands | 10.1% | 10.0% | 14% | ▼ |
| Midtown | 11.1% | 10.1% | 10% | ▼ |
| Southbank | 15.8% | 15.8% | 12% | ▲ |
| West End | 8.6% | 9.1% | 8% | ▲ |

Source: CoStar, July 2026

### Completions ('000 sf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| City | 324 | - | 210 | ▼ |
| City Fringe | 556 | - | 129 | ▼ |
| Docklands | - | - | 42 | ◀▶ |
| Midtown | 333 | - | 197 | ▼ |
| Southbank | 372 | - | 70 | ▼ |
| West End | 321 | - | 102 | ▼ |

Source: CoStar, July 2026

### Construction ('000 sf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| City | 4,005 | 4,005 | 4,195 | ◀▶ |
| City Fringe | 89 | 89 | 1,166 | ◀▶ |
| Docklands | 1,023 | 1,023 | 502 | ◀▶ |
| Midtown | 3,176 | 3,176 | 3,373 | ◀▶ |
| Southbank | 1,435 | 1,435 | 1,101 | ◀▶ |
| West End | 2,522 | 2,615 | 1,787 | ▲ |

Source: CoStar, July 2026

### 12m MRV growth

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| City | 2.4% | 3.6% | 1.3% | ▲ |
| Mid Town & West End | 6.5% | 5.2% | 4.0% | ▼ |
| Rest of London | -0.6% | -1.7% | 0.7% | ▼ |

Source: MSCI, July 2026

### Average rents (£psf)

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| City | 62.70 | 63.90 | ▲ |
| City Fringe | 55.70 | 56.10 | ▲ |
| Docklands | 49.10 | 46.80 | ▼ |
| Midtown | 68.70 | 69.90 | ▲ |
| Southbank | 65.80 | 60.60 | ▼ |
| West End | 75.20 | 76.40 | ▲ |

Source: CoStar, July 2026

### Investment volumes (£bn)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| City | 795.60 | 133.53 | 642.41 | ▼ |
| City Fringe | 400.64 | 74.72 | 209.25 | ▼ |
| Docklands | 7.50 | 750.00 | 56.64 | ▲ |
| Midtown | 172.16 | 266.58 | 518.49 | ▲ |
| Southbank | 21.28 | 2.10 | 71.61 | ▼ |
| West End | 544.31 | 707.77 | 616.40 | ▲ |

Source: CoStar, July 2026

### Prime yields (%)

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| City | 5.25-5.50 | 5.25-5.50 | ◀▶ |
| West End | 3.75-4.00 | 3.75-4.00 | ◀▶ |
| West End (non-core) | 5.25-5.50 | 5.25-5.50 | ◀▶ |

Source: Cluttons, July 2026

# Rest of UK offices

## Occupational view

- **Supply is easing but remains elevated. Availability declined across both South East and Rest of UK markets in Q2, although overall supply still equates to around four years of average demand.**
- **Grade A and specialist space remains limited. Grade A vacancy is very low in key markets, while development activity is increasingly focused on science, R&D, life sciences and innovation-led accommodation.**

Office availability in the **South East** decreased for the fourth consecutive quarter by -1.4% in Q2 and fell by -6.7% y-o-y, representing 41 months supply at the post-Covid average rate of take-up. Availability across all **Rest of UK** office markets outside London and the South East decreased for the second consecutive in Q2 by -1.1% and decreased by -0.6% year-on-year representing four years of supply.

South East **Grade A availability** increased by 3.0% in Q2 but has decreased by -40.0% y-o-y representing 20 months of supply. Rest of UK Grade A office availability decreased by -5.3% in Q2 and -18.0% y-on-year and there is now 26 months supply.

By the end of Q2 the **vacancy rate** across the UK's largest regional office markets increased by 20 bps to 12.0% and ranged between 8.6% in Edinburgh and 14.3% in Bristol. However, the vacancy rate for Grade A space across all "Big 6" centres is 1.5%. Grade A vacancy rates across the key South Eastern centres are just 0.9%.

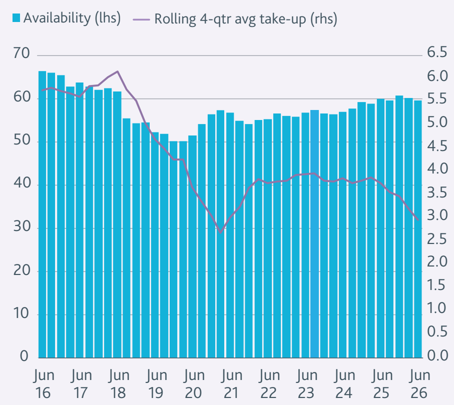
**"Big 6"** market rental value growth has increased to 4.5% in the year to June from 3.0% in the year to March. Birmingham has replaced Bristol as the strongest regional office market. Birmingham y-o-y rental growth has increased from 3.9% in March to 6.8% in June compared to 4.5% in Bristol. Y-on-y MRV growth is 3.8% in Leeds, 4.3% in Manchester but -1.3% in Glasgow. South East office market rental value growth has increased from 1.6% y-o-y in Q1 2025 to 2.1% in Q2.

Major **development proposals** in Cambridge and Oxford emphasise the importance of specialist science and R&D accommodation within the South East development pipeline. In Cambridge, the Crown Estate plans to transform the 9.5-hectare Cambridge Business Park at Cowley Road into a major innovation campus providing up to 1.8m sf of office, laboratory and R&D space. In Oxford, redevelopment on the Innovation Park and the adjoining Science Park, will provide 287,000 sf of R&D, laboratory and office space.

At the end of Q2, the Big 6 **development pipeline** amounted to 1.8 million sf in 10 buildings. More than half of this new space will be in Manchester and here again the pipeline is becoming more diversified, with purpose-built R&D and life-science accommodation emerging alongside conventional Grade A offices.

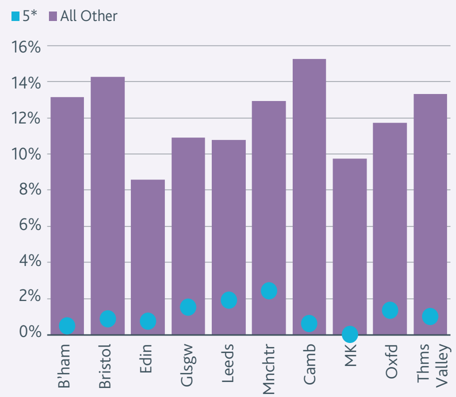
Kadans Science Partners is developing Plus Ultra Manchester at 60 Upper Brook Street as the first

**Rest of UK office availability & Take up (msf)**



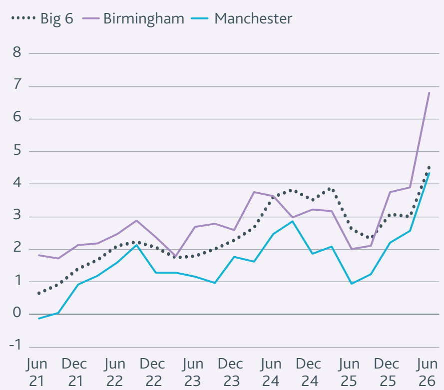

Source: CoStar, July 2026

**SE & RUK vacancy rates**



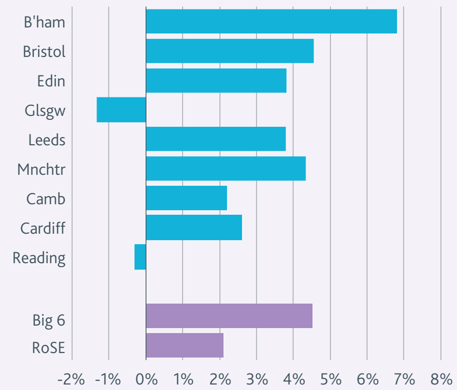

Source: CoStar, July 2026

**12m market rental growth (%)**




Source: MSCI, July 2026

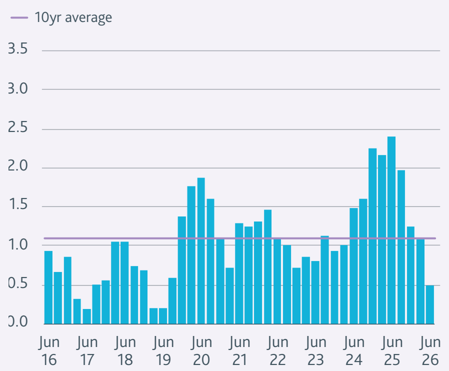
**Key Centres – 12m MRV growth (%)**




Source: MSCI, July 2026

217,000 sf phase of a much larger c.490,000 sq ft campus. Construction started in November last year. It will provide 217,000 sq ft of laboratory and office space designed for life sciences, biotech, advanced materials, AI/data, quantum and other knowledge-intensive businesses. The larger science and innovation campus will eventually deliver over 490,000 sq ft of specialist laboratory and technical space. Kadans is a Dutch specialist real-estate investor, developer backed by AXA IM Alts/Real Assets, focused on science and innovation property providing laboratories, R&D facilities, clean rooms and associated offices.

**UK excl. London development completions (msf)**




Source: CoStar, July 2026

## Investment view

- **Returns are improving but still subdued. Regional office total returns strengthened year-on-year, but quarterly performance weakened as capital values continued to soften.**
- **Investor demand remains selective. Manchester continues to attract the largest share of regional office investment, while recent transactions highlight the extent of repricing across secondary regional assets.**

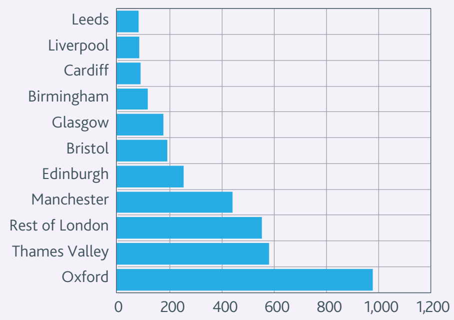
Despite support from strengthening occupational markets, the average **total return** performance across all "Big 6" centres fell to 0.4% in Q2 from 1.2% in Q1 as capital growth slipped to -0.9% from -0.3% in Q1. "Big 6" office total returns for the year to June increased to 3.5% from 3.3% in the year to March and out-performing June's All Office y-on-y performance of 2.3%.

Performance has weakened as **investment volumes** in the **South East** decreased in Q1 by -84% to £180 million after a strong end to 2025 saw transactions climb above one billion GBP. Preliminary estimates suggest that investment volumes in Q2 fell back by a further -2.0% to £175 million.

Although, the UK's major **regional office investment markets** strengthened in the first quarter of the year when investment volumes increased by 63% to £420 million, preliminary estimates suggest that investment volumes in Q2 shrank back by -65% to £147 million. Manchester was the destination for 33% of investment in the "Big 6" markets in Q1 as investors bought 16 assets worth £162 million and investment volumes reached £122 million in 13 transactions in Edinburgh.

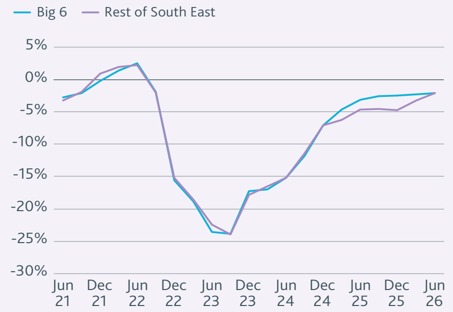
**Transactions** in Q2 include the sale by receivers of Birmingham's Lewis Building and Priory Court, which nicely illustrates the substantial repricing of regional office investments. The combined assets which have 254,000 sf of predominantly office accommodation that produces a yearly income of £7.0m secured against the Ministry of Justice and others, was previously acquired by Gulf Islamic Investments from Legal & General for £140m in 2019. After an earlier transaction at just below £70m fell through, it has now been reported that a sale to Martley Capital Group, a UK and European value-add and opportunistic real-estate investment manager founded by former members of the M7 Real Estate team, was finally completed at £60 million.

**12m regional office investment volumes**



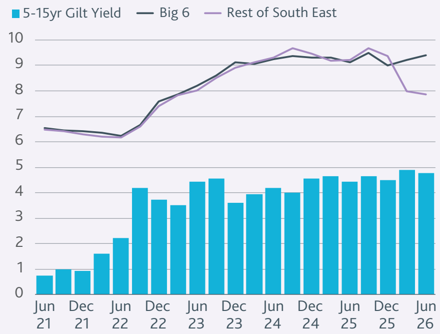

Source: CoStar, July 2026

**Big 6 – 12m MRV growth (%)**




Source: MSCI, July 2026

**Equivalent yields (%)**




Source: MSCI & Bank of England, July 2026

**Featured investment transactions**

| Building | Price (£m) | Yield (%) | Price (psf) | Avg. uxp lease term (yrs) | Buyer |
|---|---|---|---|---|---|
| 1 Tony Wilson Place, Manchester | 20.04 | | 115 | | Oval Real Est. & Alinor Capital |
| 10 Canons Way, Harbourside, Bristol | 65.00 | 8.22 (niy) | 368 | 6.0 | Lloyds Banking Group |

Source: Cluttons, July 2026

# Rest of UK offices
## Summary tables

### Take-up (msf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| Big 6 | 2.22 | 1.70 | 2.39 | ▼ |
| Eastern | 0.80 | 0.48 | 0.96 | ▼ |
| Rest of London | 1.21 | 0.95 | 1.72 | ▼ |
| Rest of UK | 2.82 | 2.18 | 3.55 | ▼ |
| South East | 1.82 | 1.54 | 2.35 | ▼ |

Source: CoStar, July 2026

### Vacancy rates

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| Big 6 | 13.3% | 13.4% | 13.4% | ▲ |
| Eastern | 7.8% | 7.7% | 6.8% | ▼ |
| Rest of London | 12.2% | 11.7% | 11.4% | ▼ |
| Rest of UK | 7.6% | 7.5% | 7.2% | ▼ |
| South East | 9.4% | 9.3% | 9.0% | ▼ |

Source: CoStar, July 2026

### Average rents (£psf)

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| Big 6 | 0.00 | 0.00 | ◀▶ |
| Eastern | 0.00 | 0.00 | ◀▶ |
| Rest of London | 0.00 | 0.00 | ◀▶ |
| Rest of UK | 0.00 | 0.00 | ◀▶ |
| South East | 0.00 | 0.00 | ◀▶ |

Source: CoStar, July 2026

### Completions ('000 sf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| Big 6 | 244 | – | 708 | ▼ |
| Eastern | 298 | 468 | 278 | ▲ |
| Rest of London | 549 | 288 | 787 | ▼ |
| Rest of UK | 609 | 45 | 830 | ▼ |
| South East | 120 | 428 | 435 | ▲ |

Source: CoStar, July 2026

### 12m MRV growth

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| South East | 1.12% | 1.63% | 1.57% | ▲ |
| Birmingham | 3.75% | 3.89% | 3.51% | ▲ |
| Bristol | 4.28% | 4.56% | 3.37% | ▲ |
| Leeds | 6.64% | 4.42% | 3.22% | ▼ |
| Manchester | 2.21% | 2.57% | 2.09% | ▲ |

Source: MSCI, July 2026

### Investment volumes (£m)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| Thames Valley | 159.28 | 79.07 | 218.90 | ▼ |
| Birmingham | 82.83 | 36.66 | 203.89 | ▼ |
| Bristol | 20.91 | 46.47 | 60.40 | ▲ |
| Edinburgh | 86.09 | 34.24 | 61.20 | ▼ |
| Glasgow | 121.91 | 24.36 | 64.95 | ▼ |
| Leeds | 75.47 | 15.94 | 55.64 | ▼ |
| Manchester | 23.11 | 13.46 | 56.24 | ▼ |

Source: CoStar, July 2026

### Availability (msf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| Big 6 | 31.38 | 31.71 | 31.28 | ▲ |
| Eastern | 16.34 | 16.19 | 14.20 | ▼ |
| Rest of London | 35.47 | 34.18 | 32.84 | ▼ |
| Rest of UK | 64.07 | 62.97 | 60.34 | ▼ |
| South East | 35.59 | 35.18 | 34.59 | ▼ |

Source: CoStar, July 2026

### Construction ('000 sf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| Big 6 | 1,732 | 1,890 | 4,615 | ▲ |
| Eastern | 2,179 | 2,565 | 1,798 | ▲ |
| Rest of London | 3,759 | 3,859 | 7,403 | ▲ |
| Rest of UK | 1,057 | 1,097 | 4,267 | ▲ |
| South East | 3,383 | 2,965 | 3,345 | ▼ |

Source: CoStar, July 2026

### Prime yields (%)

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| M25 / Thames Valley | 8.00 | 8.00 | ▲ |
| Prime Regional Centres | 6.50-7.00 | 6.50-7.00 | ◀▶ |
| Secondary Regional Centres | 10.00-20.00 | 10.00-20.00 | ▲ |

Source: Cluttons, July 2026

# 8. Industrial focus

In the three months to the end of March, Warehousing output[1], a measure of the demand for logistics space along with online retail sales, manufacturing output and imports, grew by 0.7% and by 5.2% y-on-y. Twelve months earlier in March 2025 the y-on-y rate of growth was 3.3%. This metric suggests that occupier demand for logistics remains robust.

There is little new pressure on logistics and industrial take-up from **online retail**. UK internet retail penetration peaked at 37.2% of all retailing excluding fuel, in February 2021 during the third Covid lockdown. It has now entered a mature, slow-growth phase, stabilising at around 27–30%. At the end of Q2 internet sales as a proportion of all retailing increased by 50 bps from Q1 to 29.4%.

## Occupational view

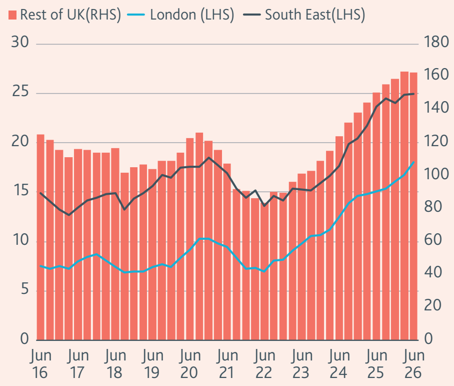
- **Availability continues to rise across much of the UK logistics market, while take-up remains below cyclical highs, pointing to a softer occupational backdrop despite pockets of resilient demand.**
- **Rental value growth remains positive but is moderating, and the shrinking development pipeline should help limit future supply pressure in prime logistics locations.**

Since the end of Covid, the **availability** of UK distribution warehousing has steadily increased across all UK regions. In Q2 the supply logistics space available to let continued to increase in London but stabilised in the South East and Rest of the UK. In the key Logistics Triangle, availability fell -4.6%.

In a similar yet opposite manner the demand or **take-up** of all industrial space has been declining since mid-2022. It is likely that this reduction in take-up is not caused by a reduction in demand but by a lack of suitable space in prime locations with the high building specification required by occupiers. There is some quarterly volatility around the trend and in Q2 all industrial take-up rose 4.0%. Lettings of logistics space grew by 6.2% to 17.4 million sf but light industrial take-up fell -22.7% to 869,000 sf possibly reflecting waning small business confidence in the face of higher total occupational costs.

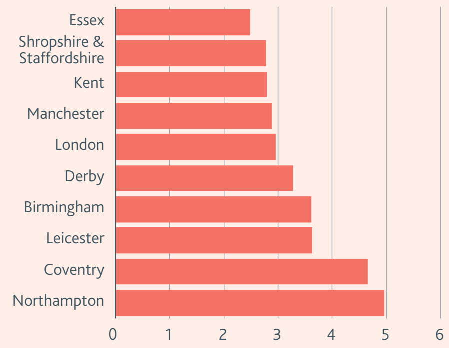
Four **lettings** of more than 500,000 sf during Q2 illustrate the continuing demand for "Big Box" logistics space. At Magna Park, Lutterworth, specialist fashion and lifestyle

**Availability of logistics space (msf)**



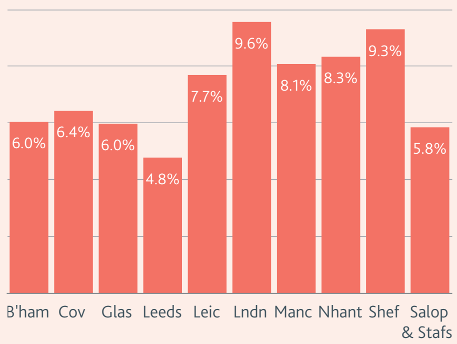

Source: CoStar, July 2026

**Logistics take-up by top 10 centres – 12m to June (m sf)**



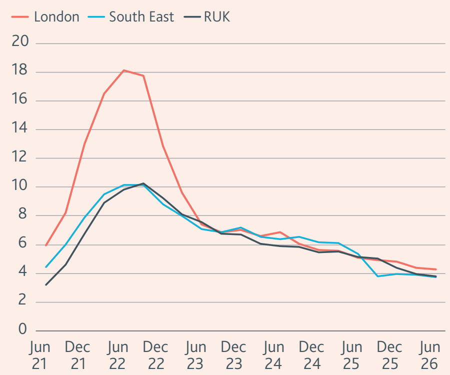

Source: CoStar, July 2026

**Logistics vacancy rates**




Source: CoStar, July 2026

**12m MRV growth rates**




Source: MSCI, July 2026

The industrial market is segmented between Logistics being 50,000+ sf of warehouse space; smaller Light Industrial units for local distribution, smaller scale manufacturing and repair workshops; and Specialised space for large scale manufacturing, R&D, Cold Storage and data centres. Most of the UK's stock of industrial space belongs to the logistics segment (65%) whilst 27% is Specialised and 8% Light Industrial.

[1] A measure of the volume of economic activity associated with warehousing, cargo handling and supporting freight and transport infrastructure

logistics provider Bleckmann took the 762,000 sf "MPN 761" facility for a new multi-client distribution operation. In Rugby, ID Logistics took the 673,000 sf former Gap distribution centre at Castle Mound Way, with the facility understood to be operated on behalf of Amazon, providing further evidence of strong demand from third party logistics (3PL) and e-commerce operators. Meanwhile at Infinity Park, Derby, CEVA Logistics committed to Logicor's newly completed 508,000 sf "Derby 507" warehouse. Lastly, the Ministry of Defence agreed to occupy approximately 525,000 sf at Panattoni Park Swindon, South Marston, reportedly as a testing and evaluation facility for uncrewed systems.

Although annual **MRV growth** has fallen below the double-digit rates recorded earlier in the cycle, it remains strongly positive. In Q2 year-on-year (y-on-y) MRV growth in London and the South East was 4.3% and 3.8% respectively. Rental value growth in the Big 6 cities averaged 4.3% supported by 6% in Bristol and Edinburgh and 11% in Glasgow, y-on-y.

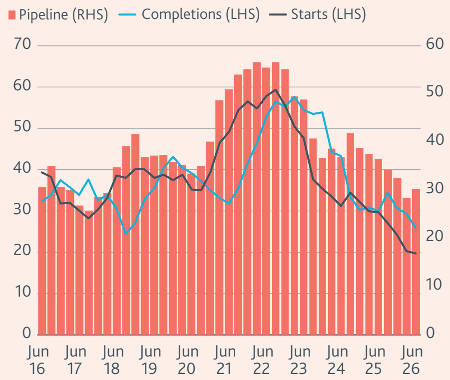
The amount of logistics space **under construction** nationally increased by 6.4% to 30.3 million sf in Q2 as construction starts grew by 64.9% to 5.6 million sf. But the amount of space under construction is trending down in the medium term. The amount of space completed in Q2 shrank by 50% to 3.75 million sf. This is 60% below the quarterly average completion rate of 9.48 million sf.

There are 110 Big Box schemes with more than 100,000 sf of space under construction listed but more than half of these are fully pre-let. PLP and Indurent's 645,000 sf M1 XL at Junction 24 of the M1 is the largest speculative logistics development currently underway in the Golden Triangle. The cross-docked facility, which offers 18m clear height and 5.4 MVA of power, is due to complete in December 2026 and remains available to let. PLP is a specialist UK logistics and industrial property developer and Indurent is one of the UK's largest owners, developers and operators of industrial and logistics property created in 2024 by Blackstone following its acquisition of St. Modwen Logistics and Industrial REIT. The decision to start construction without a pre-let demonstrates a high degree of confidence in the demand for such large units.

## Investment view

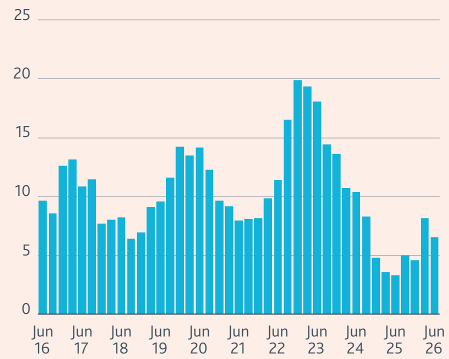
- **Investment activity remains subdued versus long-run averages as yields soften, capital growth slows and total returns ease across key industrial markets.**
- **Portfolio transactions continue to dominate investor activity, with large-scale logistics deals providing immediate exposure to quality assets and prime locations.**

**UK logistics pipeline and completions (m sf)**



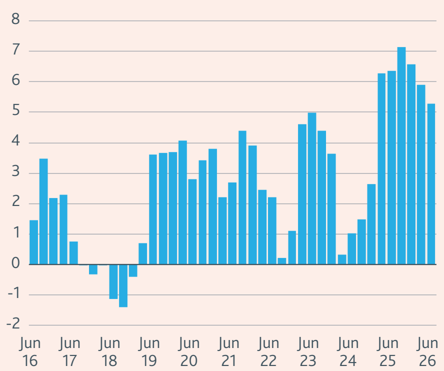

Source: CoStar, July 2026

**Logistics Triangle 12m net development completions (msf)**




Source: CoStar, July 2026

**London & South East 12m net development completions (msf)**




Source: CoStar, July 2026

Industrial **yields** continue to de-rate / soften. Despite the support of some robust MRV growth, capital growth is slowing and turned negative in Q2 for South East industrials over the 12 months to June. Consequently, overall performance is also sliding. Year-on-year London industrial total returns decreased to 4.4% from 6.1% in Q1. Across the Big 6 regional cities, y-o-y total returns decreased to 6.6% in June from 8.2% in March and 12.5% a year earlier. In the South East y-o-y returns decreased to 4.1% in Q2 from 4.8 % a quarter earlier and 8.9% in Q2 2025. Industrial yields continue to de-rate / softened in Q1 and over the last 12 months.

Industrial **investment transactions** fell back in Q1 after a strong end to last year. All industrial Investment volumes[2] decreased in Q1 by -37% to £819 million in 814 transactions or, £1.675 billion in current value terms, from £1.487 billion (£3.042 billion) in 1,369 transactions in Q4. Preliminary estimates indicate that investment volumes decreased to £961 million (£1.056 billion) in 513 transactions in Q2 compared to the ten-year quarterly average of £1.455 billion (£2.647 billion) and 1,081 transactions.

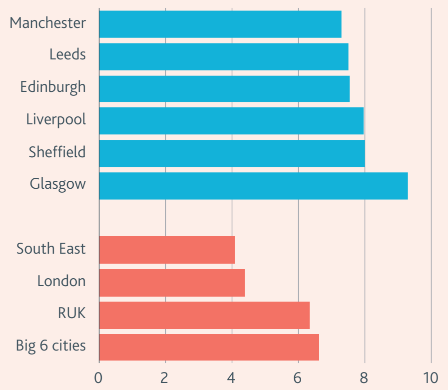
**London** once again attracted the largest slice of inward investment in Q1 amounting to £331.4 million in current value terms. A further £633.6 million was targeted across the Rest of the UK including **Manchester, Coventry and Bristol**.

**Portfolio transactions** have dominated the investment market in Q2 which has the advantages of providing immediate scale and exposure without the specific risk attached to a single asset purchase.

The **Springbox portfolio sale** reflects the continued institutional appetite for large, well-let logistics assets. Equites Property Fund, a South African logistics fund, sold its remaining exposure of six UK logistics assets let on long index-linked leases to strong occupiers including DHL, Evri and Puma. The purchaser was ICG Real Estate which paid £200.5 million reflecting a yield of approximately 5.5%. ICG is a FTSE 100-listed global alternative asset manager with $126 billion of AUM. Its ICG Real Estate division invests across property debt and equity, with a focus on European logistics.

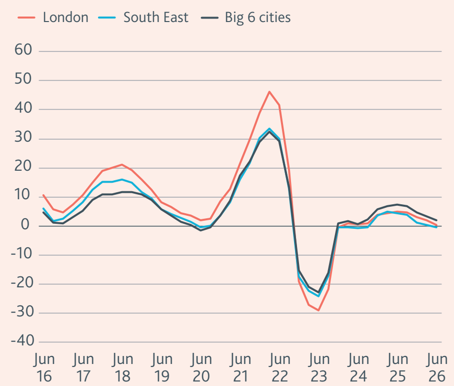
**Prologis's £14.3 billion acquisition of SEGRO** at a 39% premium to its pre-offer share price ranks as one of the largest corporate real-estate transactions ever undertaken in Europe and among the largest global logistics deals. Prologis will substantially increase its European logistics platform and gain control of an irreplaceable portfolio of urban and big-box assets in prime locations, a strong development

**Key centre 12m total returns**



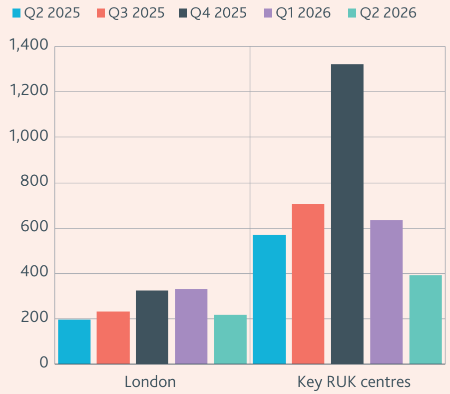

Source: MSCI, July 2026

**12m capital growth**



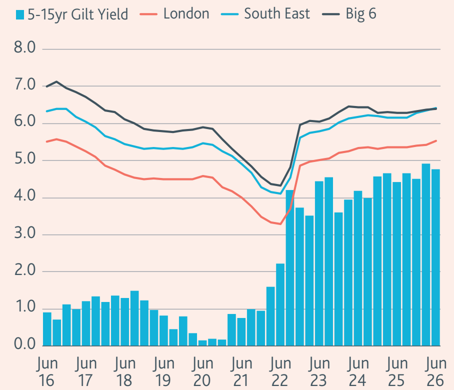

Source: MSCI, July 2026

**Industrial investment (£m)**




Source: CoStar, July 2026

**Equivalent yields (%)**




Source: MSCI, July 2026

[2] Investment volumes are the quarterly value of investment transactions adjusted for capital growth over the analysis period and provide a measure of transaction activity that is not obscured by changes in value.

pipeline with guaranteed power capacity and potential for data centre development. However, the acquisition remains subject to shareholder, regulatory and court approvals, with completion expected during H1 2027.

**Featured investment transactions**

| Building | Price (£m) | Yield (%) | Price (£ psf) | Avg. uxp lease term (yrs) | Buyer |
|---|---|---|---|---|---|
| 15 Mandela Way, SE1 | 17.70 | | 283 | | Oryx Real Estate |
| Concorde Road, Patchway IE, Bristol | 34.25 | 5.35 (NIY) | 122 | 2.3 | ICG |
| Cathedral Hill Ind. Estate, Guildford | 39.00 | 4.25 (NIY) | | | Schroders |
| Eastman Edge Ind. Estate, Harrow | 38.50 | | 334 | | Barings |

Source: Cluttons, July 2026

# Industrial focus
## Summary tables

### Availability (msf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 19.73 | 20.99 | 14.32 | ▲ |
| South East | 31.01 | 31.18 | 22.18 | ▲ |
| Logistics Triangle | 56.34 | 54.05 | 40.41 | ▼ |
| Manchester | 13.51 | 13.90 | 9.01 | ▲ |
| Leeds | 7.27 | 7.43 | 6.16 | ▲ |
| Rest of UK | 122.71 | 124.56 | 93.05 | ▲ |

Source: CoStar, July 2026

### Take-up (msf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 0.97 | 0.71 | 1.34 | ▼ |
| South East | 2.66 | 2.60 | 2.98 | ▼ |
| Logistics Triangle | 5.64 | 6.68 | 6.37 | ▲ |
| Manchester | 0.49 | 1.16 | 1.05 | ▲ |
| Leeds | 0.54 | 0.58 | 1.00 | ▲ |
| Rest of UK | 9.25 | 9.03 | 11.82 | ▼ |

Source: CoStar, July 2026

### Vacancy rates

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 8.9% | 9.5% | 6.5% | ▲ |
| South East | 7.6% | 7.7% | 5.6% | ▲ |
| Logistics Triangle | 7.1% | 6.8% | 5.2% | ▼ |
| Manchester | 6.4% | 6.5% | 4.2% | ▲ |
| Leeds | 4.0% | 4.1% | 3.4% | ▲ |
| Rest of UK | 6.1% | 6.2% | 4.7% | ▲ |

Source: CoStar, July 2026

### Completions ('000 sf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 255 | 619 | 458 | ▲ |
| South East | 1,474 | 755 | 1,541 | ▼ |
| Logistics Triangle | 3,432 | 457 | 3,248 | ▼ |
| Manchester | 194 | 697 | 353 | ▲ |
| Leeds | 67 | 223 | 469 | ▲ |
| Rest of UK | 3,429 | 3,263 | 5,822 | ▼ |

Source: CoStar, July 2026

### Construction ('000 sf)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 5,748 | 5,420 | 3,647 | ▼ |
| South East | 5,263 | 4,993 | 6,729 | ▼ |
| Logistics Triangle | 9,657 | 11,848 | 14,316 | ▲ |
| Manchester | 2,128 | 1,604 | 1,429 | ▼ |
| Leeds | 1,132 | 950 | 1,927 | ▼ |
| Rest of UK | 17,959 | 16,860 | 25,330 | ▼ |

Source: CoStar, July 2026

### 12m MRV growth

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 4.4% | 4.3% | 8.2% | ▼ |
| South East | 3.9% | 3.8% | 6.5% | ▼ |
| Logistics Triangle | 4.6% | 3.6% | 5.7% | ▼ |
| Manchester | 6.1% | 3.4% | 8.9% | ▼ |
| Leeds | 3.9% | 3.5% | 6.7% | ▼ |
| Rest of UK | 3.9% | 3.8% | 6.4% | ▼ |

Source: CoStar & MSCI, July 2026

### Average rents (£psf)

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| London | 20.40 | 20.50 | ▲ |
| South East | 13.20 | 13.30 | ▲ |
| Logistics Triangle | 9.20 | 9.20 | ◀▶ |
| Manchester | 8.50 | 8.60 | ▲ |
| Leeds | 7.60 | 7.70 | ▲ |
| Rest of UK | 8.40 | 8.40 | ◀▶ |

Source: CoStar, July 2026

### Investment volumes (£bn)

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 331.39 | 216.44 | 512.44 | ▼ |
| South East | 299.55 | 180.61 | 431.56 | ▼ |
| Logistics Triangle | 294.62 | 118.86 | 579.19 | ▼ |
| Manchester | 163.74 | 46.50 | 118.60 | ▲ |
| Leeds | 20.90 | 54.71 | 102.74 | ▼ |
| Rest of UK | 565.39 | 439.18 | 1147.81 | ▼ |

Source: CoStar, July 2026

### Prime yields (%)

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| Prime Distribution Sheds –Omrv | 5.50 | 5.50 | ▲ |
| Secondary Distribution Sheds | 6.00-6.50 | 6.25-6.75 | ▲ |
| Prime Industrial Within M25 | 4.75 | 5.00 | ▲ |
| Prime Industrial Regional | 5.25-5.75 | 5.25-5.75 | ▲ |
| Secondary Industrial Estate | 6.50-7.25 | 6.50-7.25 | ▲ |

Source: Cluttons, July 2026

# 9. Retail focus

The hot weather and the football World Cup supported food, drink, electrical and seasonal purchases in July, according to the BRC Retail Sales Monitor. The data also signalled that spending shifted online as consumers sought to avoid the head outdoors, with electric fans and paddling pools selling very well!

All retail sales increased by 1.9% year on year in June, against a growth of 3.1% in June 2025, matching the 12-month average rate of growth. In-Store Non-Food sales decreased by 1.1% year on year in June, against growth of 2.2% in June 2025. Online Non-Food sales increased by 5.1% year on year in June, against growth of 2.3% in June 2025. This was above the 12-month average growth of 1.5%. The online penetration rate (the proportion of Non-Food items bought online) increased to 39.0% in June from 37.7% in June 2025.

**Next's August trading statement** reported strong performance. Full-price sales increased 9.2% year-on-year in the 13 weeks to 1 August, against management's forecast of just 4.0%, leaving sales £70m ahead of expectations. UK sales increased 2.8%, but the standout was international online sales, up 36.9%. Within the UK, online sales rose 5.0%, whereas store sales slipped 0.3%.

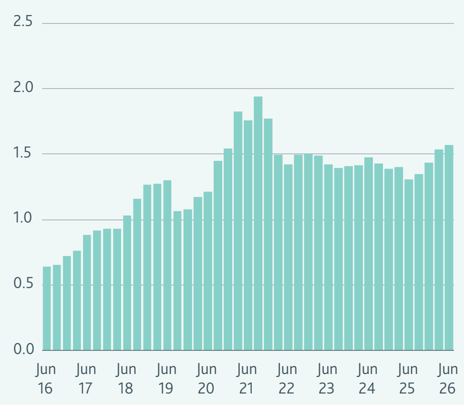
**John Lewis** is seeking to position itself at the forefront of AI-enabled retailing by integrating its product catalogue with platforms including ChatGPT and Google Gemini. Products can be discovered through conversational search and, ultimately, purchased through AI applications. The initiative forms part of the Partnership's £800m transformation programme and reflects a potentially significant shift in online retail, with AI assistants emerging as an additional sales channel in addition to retailers' own websites, search engines and social media.

## Occupational view

- **The wider retail market is seeing weaker take-up and easing rental pressure, with annual retail take-up down sharply and more space available in weaker locations, although prime Central London continues to outperform with strong leasing demand and rental growth.**
- **Retail parks remain the strongest occupational segment, supported by falling availability, limited new supply and rapid reoccupation of former Homebase and Carpetright units by retailers such as B&M, Next, Superdrug, Aldi and M&S.**

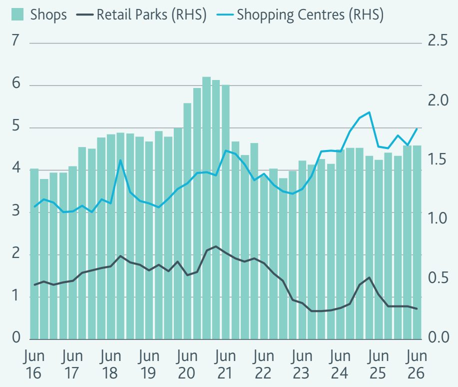
In June annual **take up** of all retail space was -16% lower than a quarter earlier and -45% lower compared to the same quarter last year. Net absorption rates for Shops and Retail Parks

**Central London shop availability ('000 sf)**



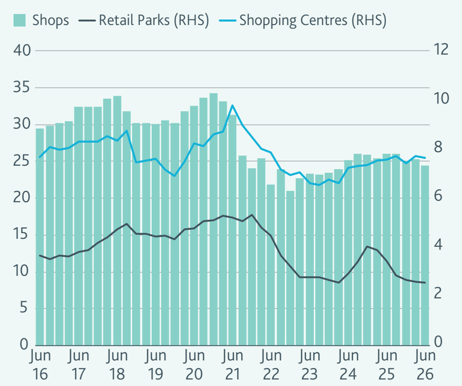

Source: CoStar, July 2026

**South East retail availability (msf)**



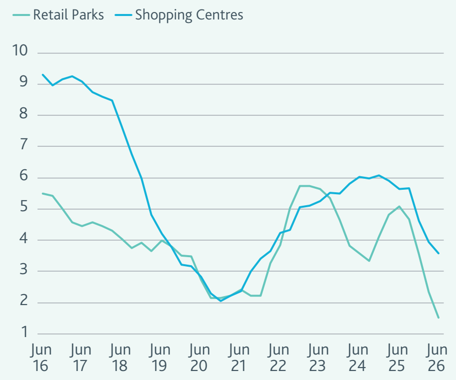

Source: CoStar, July 2026

**Rest of UK Retail availability (msf)**




Source: CoStar, July 2026

**Rolling 12m take-up (msf)**




Source: CoStar, July 2026

continue in positive territory but Shopping Centre net absorption rates have been negative since the end of 2019. A negative reading indicates that more space is being released onto the market than is being let.

The amount of all UK retail space **available to let** decreased by -4.8% y-on-y in Q2. Over this 12 month period Retail Park availability has decreased by -27%. The Retail Park development pipeline has been delivering just 170,000 sf per quarter post pandemic but occupiers have been leasing an average of 987,000 sf each quarter over this same period.

The rapid recycling of space released by the failures of **Homebase and Carpetright** demonstrates the strength and breadth of retail-park occupier demand. Former Homebase stores have been particularly attractive to expanding value retailers, with B&M taking large units in locations including Bridgend, Stamford, Berwick, Portishead, Telford and Chatham. Carpetright's generally smaller units have attracted an even wider range of operators: Next has taken former stores at Reading Gate and Ruislip, Superdrug has expanded into former Carpetright units in Aberdeen and Linwood, while Aldi is converting former Carpetright and Argos space at Rayleigh. The speed and diversity of reoccupation highlights both the shortage of suitable retail-warehouse space and the continuing evolution of retail parks from bulky-goods locations into mainstream shopping destinations.

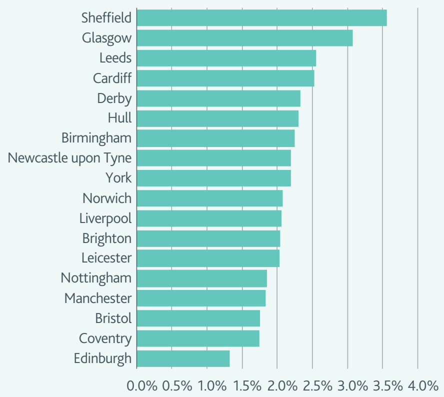
**Retail-park demand** is broadening well beyond its traditional bulky-goods and value-retail base. M&S is accelerating the rotation of its estate towards larger, more productive out-of-town locations, including the conversion of 12 former Homebase stores into Foodhalls, while Next continues to favour larger destination formats capable of combining fashion, home and third-party brands. The trend is helping transform the strongest retail parks into mainstream shopping destinations and is increasing competition for larger, well-configured units.

John Lewis is following a separate path and investing £50m this year across five stores as part of a long-term programme to transform and elevate all 36 stores across its estate into retail destinations. Customers in Glasgow, Cambridge, Leicester, Reading, and Liverpool will benefit from this latest phase of investment. Glasgow will receive more than £20m in a full redevelopment - the largest single-store investment made by the brand in recent years. The Glasgow redevelopment will see every floor of the 28,000 square metre store upgraded.

All Shopping Centre market rental value (MRV) growth decreased to 2.9% in the year to June from 3.5% y-on-y in Q1. Retail Park **rental growth** increased to 2.9% in the 12-months to June from 2.7% y-on-y in December last. SE and RUK shop rental values grew at 1.1% and 1.8% y-on-y respectively.

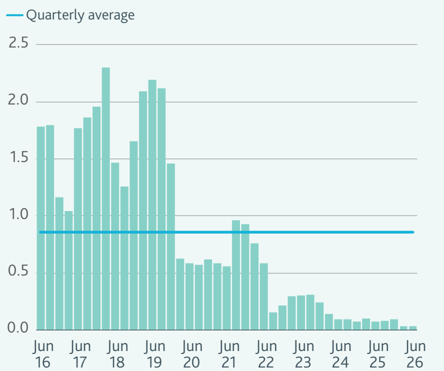
In **Central London** shop MSCI recorded MRV growth of 6.9% y-on-y in June. Leasing activity at Shaftesbury Capital remained exceptionally strong during H1 2026, providing further evidence of the resilience of London's prime West End. The company completed 226 leasing transactions. New leases and renewals were agreed at rents 18% above previous passing levels and 5% ahead of estimated rental values. Strong demand from luxury retailers, international fashion brands, restaurants and leisure operators, together with limited new supply, continues to support rental growth

**Key centre vacancy rates**



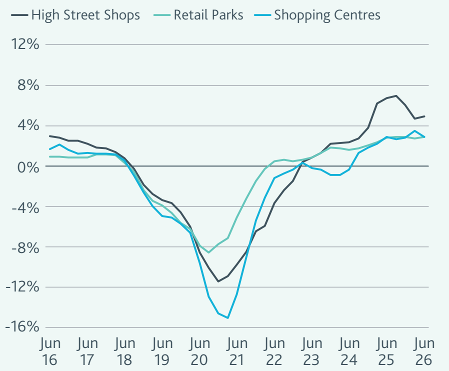

Source: CoStar, July 2026

**Retail Park development completions 12m (msf)**




Source: CoStar, July 2026

**12m MRV growth**




Source: MSCI, July 2026

## Investment view

- **Retail investment performance has softened and transaction activity has reduced, with returns easing across shopping centres, retail parks and high street shops, and all-retail investment volumes falling in Q1.**
- **Prime and specialist retail assets continue to attract capital, helped by relatively high yields and investor confidence in quality stock, as shown by Frasers Group's £400m acquisition of York Designer Outlet and East Midlands Designer Outlet.**

Performance from the Retail Sector fell across each of the three main segments in Q2. However, Retail continues to perform strongly relative to the All-Property average. Shopping Centre total returns decreased to 8.2% y-on-y in Q2 from 8.4% in March. Retail Park total returns slipped to 7.7% y-on-y in June from 7.3% in September. High Street shop performance fell back in Q2 as total returns decreased to 7.7% from 8.1% in Q1.

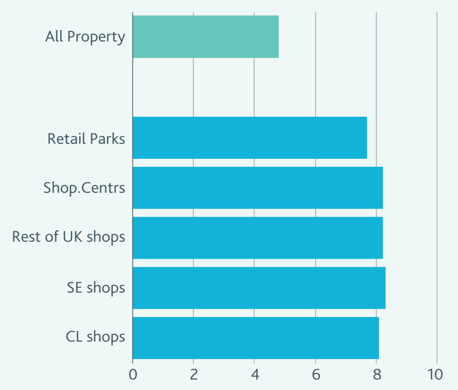
The indices suggest that **retail yields** in each of the main segments softened in Q2 as market conditions worsened. However, a 12-month view shows that strengthening values have resulted in yields hardening, particularly for Shops and Shopping Centres.

Retail Park **investment volumes** decreased y-on-y in Q1 by -19.3% to £1.491 billion in 260 transactions or, £1.486 billion in current value terms, from £1.849 billion (£1.837 billion) in 270 transactions in Q4 2025. Shopping Centre investment volumes increased y-on-y in Q1 by 21.8% to £4.311 billion in 113 transactions or, £1.739 billion in current value terms, from £3.538 billion (£1.426 billion) in 110 transactions in Q4 2025. Investment in traditional high street shops continues to decrease q-on-q. Preliminary estimates indicate that All Retail investment volumes decreased by -7.6% to £4.246 billion (£8.126 billion) in 5,681 transactions in Q1.

**Frasers Group Plc** strengthened its position as one of the UK's largest retail property owners in Q2 through the acquisition of York Designer Outlet and East Midlands Designer Outlet from Aviva Investors for around £400 million. The two dominant regional outlet centres comprise approximately 640,000 sf of retail accommodation and over 170 stores, occupied by leading premium and lifestyle brands including Nike, Ralph Lauren, Calvin Klein, Tommy Hilfiger, M&S and Next. The acquisitions reflect Frasers' strategy of building a portfolio of destination retail assets that combine resilient rental income with opportunities to expand its own retail brands, while highlighting continued investor confidence in the outlet-centre sector.

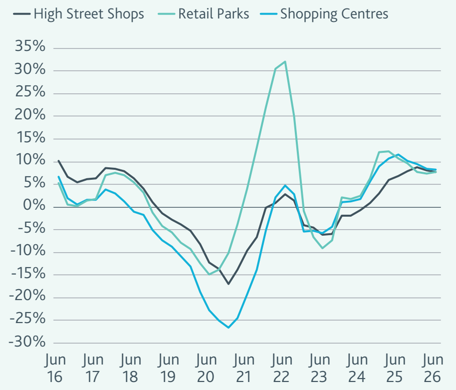
Frasers Group is a FTSE 100 retail and property company with annual revenues exceeding

### 12-month total returns



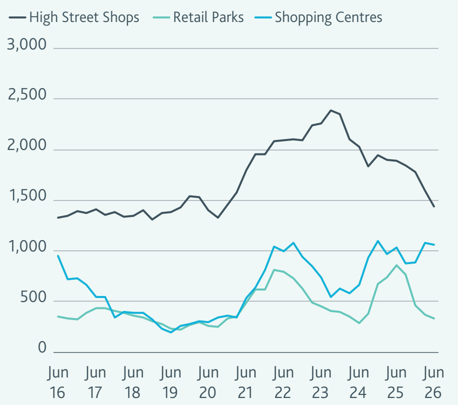

Source: MSCI, July 2026

### Rolling 12m total returns



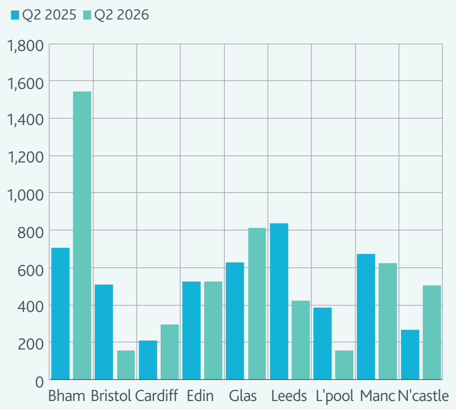

Source: MSCI, July 2026

### Retail investment volumes (£m)




Source: CoStar, July 2026

### 12m Key centre investment (£m)

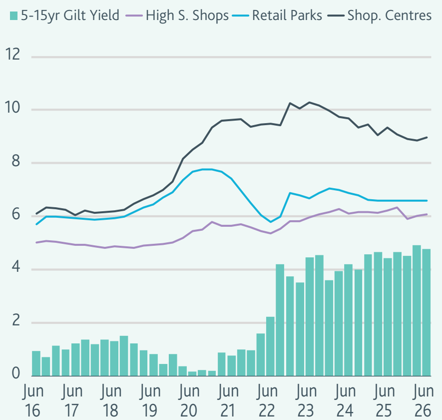



Source: CoStar, July 2026

[1] Investment volumes are the quarterly value of investment transactions adjusted for capital growth over the analysis period and provide a measure of transaction activity that is not obscured by changes in value..

£5 billion. Originally established as Sports Direct, it now owns a portfolio of sports, premium fashion and luxury retail brands while also becoming one of the UK's most significant owners of shopping centres, retail parks and outlet villages. Its strategy combines retail operations with direct ownership of commercial real estate, enabling it to generate rental income, enhance the trading environment for its own brands and create long-term capital value.


**Equivalent yields (%)**




Source: MSCI, July 2026

**Featured investment transactions**

| Building | Price (£m) | Yield (%) | Price (£psf) | Avg. uxp lease term (yrs) | Buyer |
|---|---|---|---|---|---|
| 170 New Bond Street, W1 | 62.50 | 3.25 (niy) | 14,888 | 23 | Marlborough Property |
| Telford Bridge Retail Park, Telford | 30.00 | 8.30 (niy) | 154 | | British Land |
| Slough Retail Park, Slough | 55.100 | 5.25 (niy) | 367 | | DTZ Investors |

Source: Cluttons, July 2026

# Retail focus
## Summary tables

**Availability (msf)**

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 5.52 | 5.35 | 5.42 | ▼ |
| South East | 4.59 | 4.58 | 4.31 | ▼ |
| Rest of UK | 25.26 | 24.41 | 24.40 | ▼ |
| Shopping Centres | 10.22 | 10.24 | 12.16 | ▲ |
| Retail Parks | 3.05 | 2.93 | 4.02 | ▼ |

Source: CoStar, July 2026

**Take-up (msf)**

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 0.560 | 0.424 | 0.853 | ▼ |
| South East | 0.413 | 0.355 | 0.746 | ▼ |
| Rest of UK | 1.850 | 1.354 | 3.022 | ▼ |
| Shopping Centres | 0.647 | 0.859 | 1.355 | ▲ |
| Retail Parks | 0.319 | 0.246 | 0.982 | ▼ |

Source: CoStar, July 2026

**Vacancy rates**

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 3% | 3% | 3% | ▼ |
| South East | 2% | 2% | 2% | ▼ |
| Rest of UK | 3% | 3% | 3% | ▼ |
| Shopping Centres | 5% | 5% | 5% | ▲ |
| Retail Parks | 2% | 2% | 3% | ▼ |

Source: CoStar, July 2026

**Completions ('000 sf)**

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 92.03 | 289.84 | 279.71 | ▲ |
| South East | 186.62 | 37.82 | 167.19 | ▼ |
| Rest of UK | 206.81 | 87.39 | 737.50 | ▼ |
| Shopping Cen. | - | 16.35 | 68.88 | |
| Retail Parks | 1.85 | 4.92 | 54.50 | ▲ |

Source: CoStar, July 2026

**Construction ('000 sf)**

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 1,019 | 755 | 1,468 | ▼ |
| South East | 661 | 623 | 828 | ▼ |
| Rest of UK | 1,905 | 2,066 | 2,832 | ▲ |
| Shopping Cen. | 16 | - | 177 | |
| Retail Parks | 7 | 52 | 97 | ▲ |

Source: CoStar, July 2026

**12m MRV growth**

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 6.9% | 6.9% | 3.4% | ▲ |
| South East | 1.1% | 1.1% | 0.0% | ▼ |
| Rest of UK | 0.8% | 1.8% | 1.0% | ▼ |
| Shopping Centres | 3.5% | 2.9% | 0.8% | ▲ |
| Retail Parks | 2.7% | 2.9% | 1.7% | ▼ |

Source: MSCI, July 2026

**Average rents (£psf)**

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| London | 43.20 | 42.90 | ▼ |
| South East | 26.10 | 25.90 | ▼ |
| Rest of UK | 19.20 | 19.20 | ◀▶ |
| Shopping Centres | 34.60 | 34.60 | ▼ |
| Retail Parks | 21.20 | 21.20 | ◀▶ |

Source: CoStar, July 2026

**Investment volumes (£bn)**

| | Q1 2026 | Q2 2026 | 5y avg. | Trending |
|---|---|---|---|---|
| London | 276.08 | 238.31 | 524.53 | ▼ |
| South East | 213.23 | 98.68 | 331.19 | ▼ |
| Rest of UK | 474.44 | 424.02 | 891.29 | ▼ |
| Shopping Cen. | 337.11 | 346.03 | 426.23 | ▲ |
| Retail Parks | 293.25 | 513.43 | 553.07 | ▲ |

Source: CoStar, July 2026

**Prime yields (%)**

| | Q1 2026 | Q2 2026 | Trending |
|---|---|---|---|
| Prime Shops | 6.25-6.50 | 6.25-6.50 | ◀▶ |
| Secondary Shops | 7.50-9.50 | 7.50-9.50 | ◀▶ |
| **Shopping Centres** | | | |
| Prime – Dominant Regional | 7.50-8.00 | 7.50-8.00 | ◀▶ |
| **Retail Warehouse** | | | |
| Prime Parks (Open A1/Food Store) | 5.25 | 5.25 | ◀▶ |
| Prime – Solus (15Yrs/10Yrs) | 5.75-6.25 | 5.75-6.25 | ◀▶ |

Source: Cluttons, July 2026

# 10. Outlook & house view

- **Forecasters' confidence in the UK commercial property outlook for the second half of 2026 has weakened, with total return expectations decreasing across all segments. The range of forecasts has widened, reflecting uncertainty due to geopolitical events and rising risk-free rates.**

- **Cluttons has reduced its House View forecast to 5%. While a collapse in values is unlikely, the main driver of returns is expected to be income, benefiting higher-yielding segments.**

## Consensus Forecasts

Not surprisingly, forecasters' confidence in the outlook for UK commercial property in 2026 has weakened further in Q2. May's Investment Property Forum (IPF) consensus forecasts for total returns in 2026 decreased to 5.4% from 8.0% in February.

May's IPF consensus outlook for 2027 was also reduced to 7.6% from 8.1% but some of the expected loss in performance could be recovered in later years. The five-year outlook has been trimmed by just 0.3% from an annualised average of 7.5% to 7.2%.

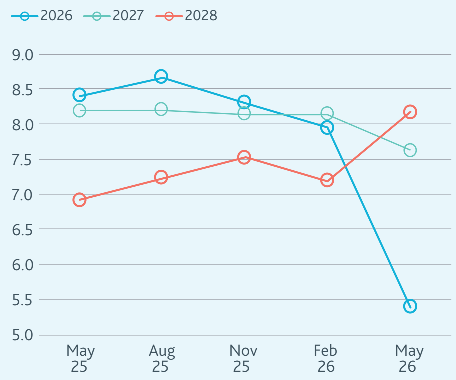
Total return expectations for 2026 decreased across all segments in May's survey. West End offices and standard Retails bore the largest cuts but expectations for 2026 remain highest for Shopping Centres and Retail Warehouses.

The range of forecasts for 2026 widened again in May, with the maximum prediction an optimistic 8.8% and the minimum decreasing to 3.0%, a range of 5.8%, compared to 3.4% in February, as the consensus view widens in the face of the uncertain economic headwinds. The range of forecasts for 2027 has also widened to 5.1% for 2027, ranging from 11.1% to 6.0%.

The RICS UK Commercial Property Monitor for Q2 2026 suggests that industrial occupational demand strengthened modestly, while demand for office and retail premises remained weaker. Rental growth expectations continue to favour prime assets, with offices and industrial property expected to outperform, while secondary offices and retail remain under pressure. Much of the improving outlook for rental growth is being driven by London offices and Rest of UK industrials.

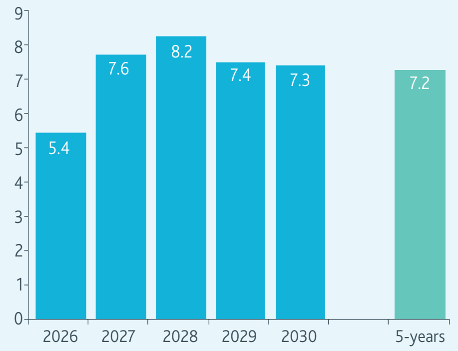
Investment conditions remain weaker than occupier markets. Industrial assets drew the strongest investor interest, while office and retail demand stayed subdued. Overseas enquiries remained negative for a fourth quarter. Capital value expectations still favour prime offices and industrial property, but secondary offices and retail are expected to decline further. London remains the strongest

**IPF Consensus forecast evolution (%)**



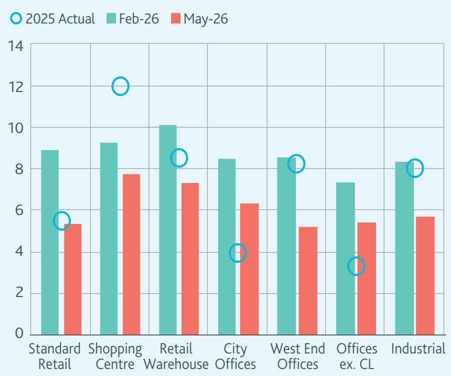

Source: IPF, May 2026

**IPF All Property consensus forecasts y-by-y (%)**



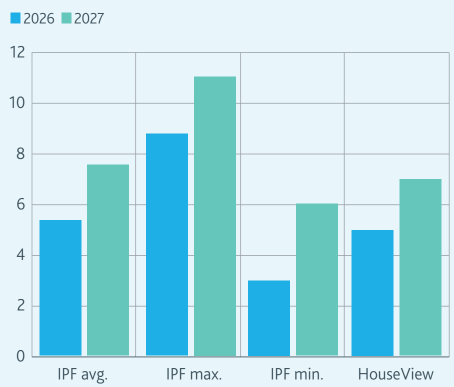

Source: IPF, May 2026

**IPF 2026 total return forecasts by sector May 26 v Feb 26 (%)**




Source: IPF, May 2026

**UK commercial total return forecast range (%)**




Source: IPF, APR & Cluttons, May & July 2026 investment market, with more optimistic expectations for prime offices and retail.

The central forecast from the House View model is revised on a quarterly basis to reflect the changing macro-economic outlook and the current performance of commercial real estate.

## Cluttons' House View

We started this year believing that the momentum behind UK commercial real estate's recovery would improve and that All Property total returns of 7.1% in 2025 would grow to 9% in 2026. This expectation collided with reality when the USA and Israel unexpectedly launched attacks on Iran. Contrary to expectations at the start of the year, risk free rates rose, the likelihood of any immediate reduction in Bank Rate evaporated and our base forecast was reduced to 6% at the end of Q1 2026.

Our latest view is that All Property total returns for 2026 could now be lower still at 5%. Year- to-date the MSCI index is showing an annualised 5.35% but in the last three months i.e. post conflict, annualised performance has decreased further to 4.85%.

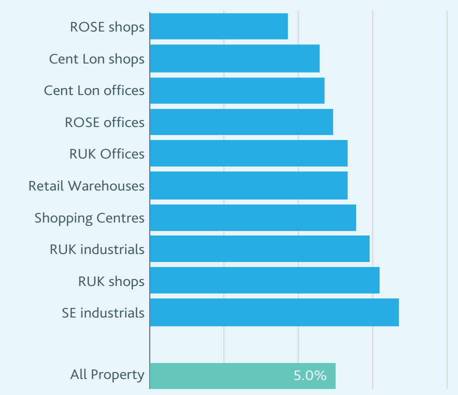
On a brighter note, we do not think a collapse in values is likely. In September 2022 the 10-year gilt yield rose 124 bps in response to the infamous Mini Budget and the All Property IY rose 87 bps in the next three months – a pass-through rate of 71%. Since the end of February, the 10-year gilt yield has risen 62 bps in response to the US and Israeli attacks on Iran and closure of the Straits. Using 2022's example suggests that the IY should have risen by 44 bps. In fact, it has remained largely stable. The difference between the two episodes, of course, is that in the last quarter of 2022 base rates rose 125 bps and were on the way to 5.25% from 0.25% at the start of 2022. So far, the MPC has shown itself willing to look through a "temporary" inflation episode.

The low transaction volume numbers despite evidence of plentiful liquidity suggests that Investors and potential vendors seem to be waiting to see how macroeconomic events in reaction to the Iranian war unfold.

With strictly limited capital growth in the forecast, the main driver is income which benefits the higher yielding segments. In a worst-case scenario involving a pro-longed war, sustained high inflationary levels and monetary tightening All Property total returns could be 4% or lower. Performance could pick up to an annualised 7% over three years assuming there is a recovery towards the end of the forecast period as underlying conditions improve.

Of course, the usual warnings apply regarding threats to financial markets from the further or heightened geo-political instability. Unfortunately, we have little confidence in the current US administration being able to negotiate an end to the war that reinstates the status quo.

**Cluttons house view – 2026 relative total returns (%)**




Source: IPF, APR & Cluttons, July 2026

CLUTTONS

cluttons.com

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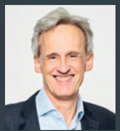

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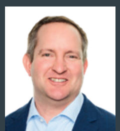

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