CLUTTONS
INVESTMENT MANAGEMENT

cluttonsim.com

Commercial property examiner

Q1 | 2026

Contents

1. Key takeaways

The outlook for the UK economy, inflation and interest rates is uncertain amid the conflict in the Middle East . The closing of the Strait of Hormuz to international shipping and damage to some of the oil and gas infrastructure around the Gulf. Even if the conflict ended today, the damage caused to critical oil and gas infrastructure and the supply side shock suffered to date suggest that oil-market disruption may continue for several months, with some price and risk effects plausibly lasting into next year. Signs of a persistent inflationary reaction to the conflict will put increased pressure on central banks to raise base rates.

Volatility returned to the world's financial markets in Q1. In the immediate aftermath of the outbreak of the conflict in the Middle East, the MSCI world index fell -8.9%. Despite the huge uncertainties, financial markets are pricing in the Strait of Hormuz opening soon. The index has recovered 11.4% since the end of Q1 and is now 5.0% higher year-to-date. Bond markets have taken a very different approach to the conflict. After the opening shots were fired, yields rose by 80bps for short-dated Gilts and 60 bps or more for maturities of ten years and longer. Unlike equity markets, there has been no recovery in pricing. The yield on 10-year Gilts was 5.02% in mid-April after almost nine weeks of fighting and is now nearing the level reached in 2007.

As the crisis develops the UK's CRE market is slowing. All Property total returns of 0.4% in March, as recorded by the MSCI Monthly Index, were amongst the weakest of the last two years. Sentiment has weakened but the market is not yet in negative territory. The direct impact of the war on pricing has been negligible so far but that may not be the case if fighting drags on and the Strait remain closed. In Q1, rolling 3-month UK commercial real estate performance remained static. All Property total returns, as recorded by the MSCI Monthly Index, increased very slightly to 1.43% from 1.42% in Q4. Capital growth showed no change over the quarter after a rise of just 4bps three months earlier. All Property total returns decreased to 6.5% from 7.1% in the year to December and in the year to date have further decreased to an annualised rate of 5.9%.

Last quarter's expectations of a benign economic and interest rate outlook supporting stronger commercial property market performance have been dampened. In the absence of an immediate ceasefire and free access for shipping through the Strait, our base forecast has been reduced to 6% in 2026 and 7% over the three years to end of 2028, assuming that there is no monetary tightening. With strictly limited capital growth in the forecast, income is the main driver which benefits the higher yielding segments.

2. The UK economy

- **UK GDP surprised on the upside and is estimated to have grown by 0.5% in February. However, the IMF expects net energy-importing countries like the UK to suffer a larger negative effect from the conflict in the Gulf.**
- **Business optimism at UK private sector firms has fallen and respondents to April's S&P Global UK PMI suggest that rising price pressures have dampened their business activity expectations for the year ahead.**

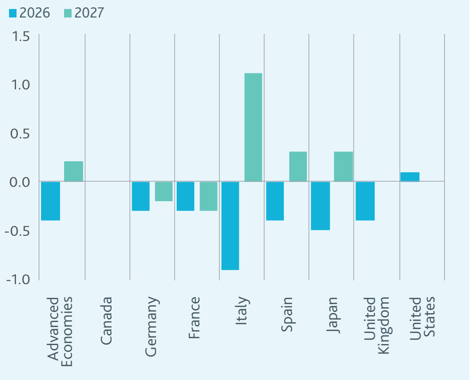
The conflict in the Middle East has caused loss of life and widespread economic disruption. The Strait of Hormuz remain closed, and the US navy is blockading Iranian ports. Even if the conflict ended today, the damage caused to critical oil and gas infrastructure and the supply side shock suffered to date suggest that oil market disruption may continue for several months, with some price and risk effects rippling into next year.

In April's World Economic Outlook (WEO) subtitled, "Global Economy in the Shadow of War", the IMF has downgraded its 2026 global growth base forecast by 0.2% to 3.2%. The forecast for 2027 remains unchanged at 3.2%, but lower than the 2024-25 average of 3.4%. Global inflation forecasts have been increased to 4.4% in 2026 and 3.7% in 2027. Under an adverse scenario with larger and more persistent increases in energy prices, global growth would slow further to 2.5% in 2026, and inflation would reach 5.4%. In an even more severe scenario with more damage to energy infrastructure in the Gulf region, global growth would be cut to only about 2% in 2026, while headline inflation would be 6% or higher by 2027.

For advanced economies, growth is projected to be 1.8% in 2026 and 1.7% in 2027. Net energy-importing countries in the Euro area and UK are expected to suffer a larger negative effect. Growth in the euro area is expected to decline to 1.1% in 2026 and 1.2% in 2027. In both years the forecasts have been downgraded by 20bps. In the UK, economic growth of 1.3% in 2025 is expected to decline to 0.8% in 2026, representing a 50bp downward revision relative to last October's forecast, recovering to 1.3% in 2027. UK inflation is expected to pick up again toward 4% before returning to target by the end of 2027 as the effects of higher energy prices fade and a weakening labour market exerts downward pressure on wage growth.

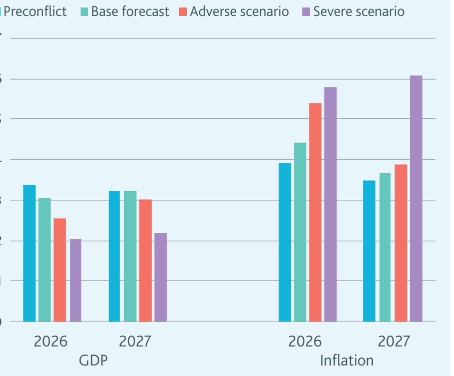
UK GDP surprised on the upside in February and is estimated to have grown by 0.5%, following growth of 0.1% in January and growth of 0.1% in December 2025. In the three

Actual GDP % growth and MPC forecasts



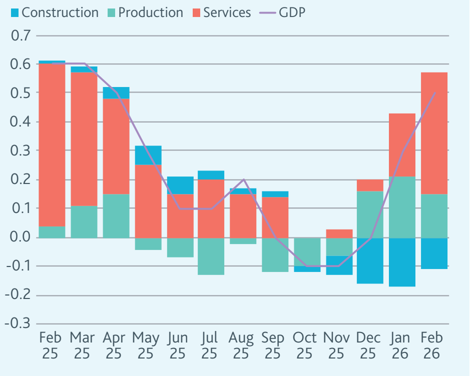
Source: IMF, Apr 2026

GDP forecast scenarios



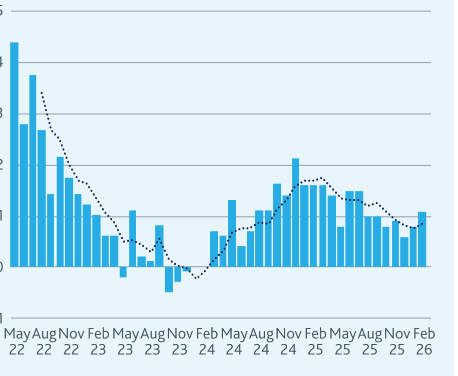
Source: IMF, Apr 2026

GVA% (quarterly growth)



Source: ONS, Apr 2026

UK annual % economic growth



Source: ONS, Apr 2026

months to February, GDP is estimated to have also grown by 0.5% compared to the previous three-month period, following growth of 0.3% in the three months to January and no growth in the three months to December 2025. The largest contribution to the quarterly growth once again came from the service sector. The production sector has recovered from the sharp fall in the manufacture of motor vehicles caused by the Jaguar Land Rover cyberattack and grew by 1.2% in the three months to February. Construction output decreased by 2.0% in the three months to February 2026 compared with the three months to November 2025 as new private housing work fell by 6.5%. The Government's target of building 300,000 homes a year remains challenging.

Over the longer term, GDP is estimated to have grown by 1.1% in the 12 months to February, compared with the same period twelve months a year ago. Services grew by 1.4% but construction shrank by -0.9% and manufacturing output declined -0.5%.

April's Monetary Policy Report from the Bank of England notes that the conflict in the Middle East has significantly increased the uncertainty surrounding the UK economic outlook and presents three scenarios. The scenarios primarily differ in their assumptions about the paths of global energy prices and the extent of any second-round effects on domestic price and wage-setting.

Scenario A assumes that there are no new second-round effects because of the increase in energy prices. In Scenario B, higher energy prices raise short-term inflation expectations, leading to second-round effects. But those effects are modest. Scenario C is more severe.

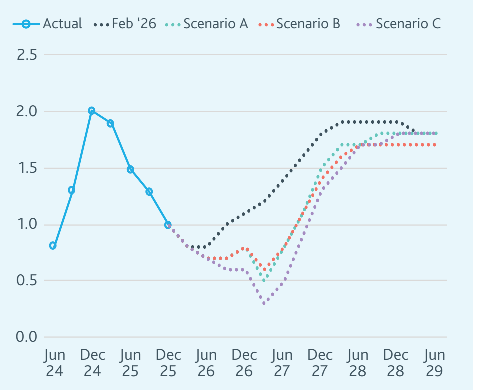
All scenarios reflect the likelihood of a slowdown in economic activity. In Scenario A, four-quarter GDP growth slows to 0.5% in 2027 Q1 before recovering to 1.8% by the end of the scenario period. Whereas in the most severe, Scenario C, the combination of high and persistent energy prices, elevated global export prices and strong second round effects, alongside the impact of the higher yield curve, results in a marked deterioration in activity. Four-quarter GDP growth falls to 0.3% in 2027 Q1.

The annualised average forecast over the next three years decreases from 1.6% in February to 1.3% under Scenarios A and B and 1.2% under Scenario C.

A warning of the approaching headwinds for the UK economy was provided by April's S&P Global UK PMI. The headline seasonally adjusted Composite Output Index increased to 52.0 in April from 50.3 in March, indicating a moderate expansion of UK private sector business activity. However, input cost inflation continued to accelerate sharply and was the highest since November 2022. This was led by a rapid increase in raw material prices in the manufacturing sector. Service providers also experienced a surge in cost pressures, largely due to higher fuel prices. The acceleration in service sector cost inflation since March was the greatest for a single month since this index began in July 1996.

Business optimism at UK private sector firms fell to its second-weakest level since December 2022; a low point only exceeded by the US tariffs-related slump in confidence seen last April. Survey respondents suggested that rising price pressures had dampened their business activity expectations for the year ahead. Worries about the impact of geopolitical tensions on supply chains, consumer confidence and business investment were also widely reported in April.

Actual GDP % growth and MPC forecasts



Source: ONS & Bank of England, Feb & Apr

3. Inflation and prices

- **Recent Consumer Price Index (CPI) data indicate that the ongoing conflict in the Middle East may be influencing inflation trends, with 12-month inflation increasing to 3.3% in March from 3.0% in February.**
- **Signs of persistently higher inflation may lead to higher interest rates.**

The latest CPI numbers hinted at the likely direction of travel caused by the conflict in the Middle East as 12-month inflation rose to 3.3% in March from 3.0% in February. Transport and, in particular, motor fuels made the largest upward contribution to the monthly change in annual CPI rates. The average price of petrol rose by 8.6 pence per litre between February and March 2026. The increase in Transport prices was the highest annual rate recorded since December 2022 when global oil prices were driven higher after the Russian invasion of Ukraine.

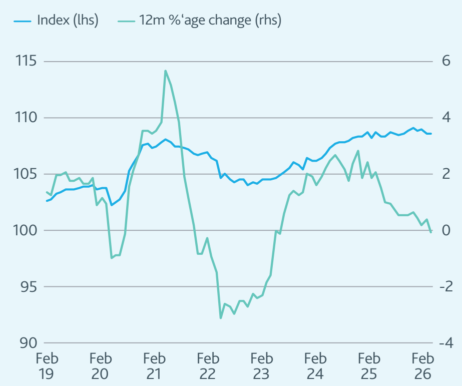
Core inflation excluding energy, food, alcohol and tobacco continued to fall, reaching 3.1% in December, but this remains above the 2.1% average registered between the Global Financial Crisis (GFC) and the pandemic. Service sector CPI inflation remained stable at 4.5% over the course of Q1. Annual wage growth excluding bonuses continues to slow decreasing to 3.6% in the three months to February, compared to 4.5% in the three months to November. On a real basis, average pay decreased by -0.3% in the year to February threatening the return of a cost-of-living crisis. In different circumstances this would support the case for further monetary loosening.

Across the three scenarios presented in the MPC's April report, inflation is higher in the near term than the central projection in the February Report. The outlook varies depending on the magnitude of the energy shock. Larger and more persistent rises in global energy prices are judged to be likely to lead to bigger second-round effects on inflation. Given the inflationary nature of the energy price shock, the monetary policy stance needs to be tighter on average in these scenarios compared with the central projection in the February Report, and materially so for a scenario in which there is a further sharp rise in energy prices and strongly persistent second-round effects.

The appropriate path for Bank Rate will vary depending on how the shock evolves. In Scenario A, CPI inflation rises to 3.6% at the end of 2026. In Scenario B, inflation peaks at similar levels. However, in Scenario C, inflation peaks at 6.2% in 2027 Q1 and remains above target for the entire scenario period.

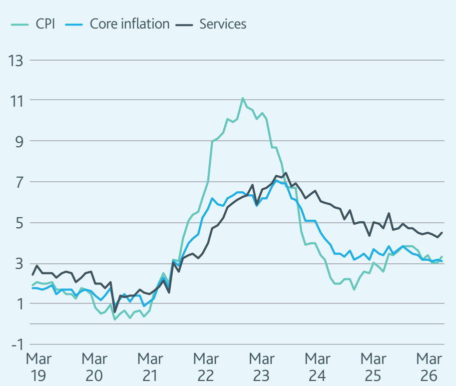
The market-implied path for interest rates has increased significantly since the February report. But the possibility of further increases in Base Rate depends on how the crisis evolves. In the short term, the weak outlook for UK economic growth makes a renewed tightening of monetary policy implausible. However, the impact on the economy and inflation will depend on how much energy prices increase and how long they stay raised; it will also depend on how much pressure businesses feel to increase wages and prices. Although monetary policy cannot affect global energy prices, signs of persistently higher inflation may lead to higher interest rates.

Real pay index, sa (May 2005=100)



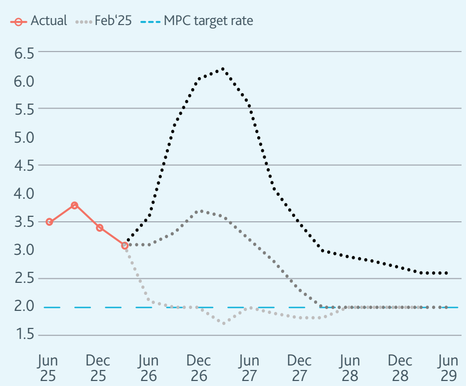
Source: ONS, Apr 2026

CPI inflation (%pa)



Source: ONS, Apr 2026

Annual CPI and MPC forecasts May '25



Source: ONS & Bank of England, Feb & Apr 2026

4. Stock markets, interest rates & asset yields

- **Despite the huge uncertainties, financial markets are pricing in the Strait of Hormuz opening soon. However, the Bank of England has warned that global stock markets are overvalued and poised for a potential fall.**
- **Bond markets have taken a very different approach to the conflict. Unlike equity markets there has been no recovery in pricing. The yield on 10-year Gilts of 5.02% in mid-April after almost nine weeks of fighting is now nearing the same level reached in 2007.**

Volatility returned to the world's financial markets in Q1. The MSCI World Index has large and mid-cap representation across 23 developed markets. It also has 72% exposure to the US markets and 27% to IT with a 24% exposure to the so called "Magnificent 7". In Q1 the index shrank by -3.2% in USD terms and -4.7% on a hedged GBP basis, as the pound depreciated by -1.9% over the last three months.

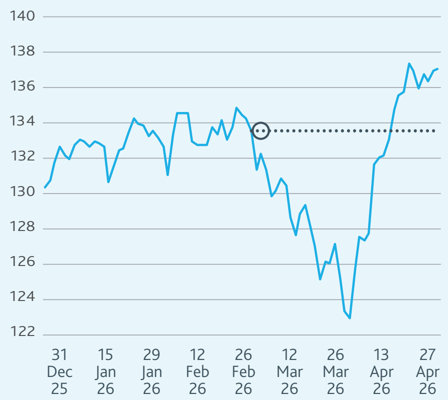
In the USA, the tech-focused NASDAQ fell by -10.0% in Q1 while the broader-based DJIA and S&P 500 shrank by -5.8% and -7.2% respectively. The market had reached a record high by mid-January supported by solid economic fundamentals and investors anticipation of continued earnings growth. Following US and Israeli strikes on Iran, investor sentiment vacillated between hopes for de-escalation and fears of a prolonged conflict. Having fallen by -8.9% after the Iran conflict started, the MSCI World index recovered 11.8% and is currently 4.3% up in the year-to-date as equity investors optimistically assume a short end to the conflict.

Deputy Governor Sarah Breeden of the Bank of England, responsible for financial stability, this month (April) warned that global stock markets are overvalued and poised for a potential fall. Current, near-record high valuations do not properly reflect significant risks, such as geopolitical tensions and private credit vulnerabilities, making a market "adjustment" likely.

The broad-based Eurofirst 300 index gave up -1.8% in Q1 with the declines concentrated in March following the outbreak of hostilities in the Middle East. The UK's FTSE 100 rose by 2.0% in Q1. Gains were supported by the relatively large weighting of the energy sector, along with weaker sterling which helped export-oriented larger companies.

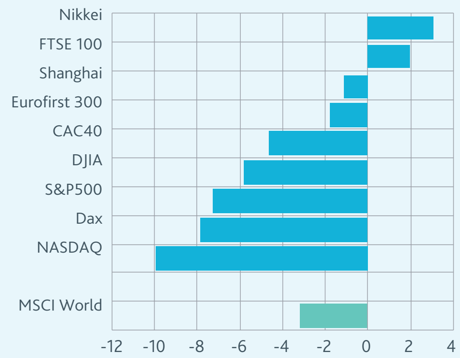
Information technology stocks declined during Q1 even though many companies reported solid revenue growth. The software

MSCI World index in 2026



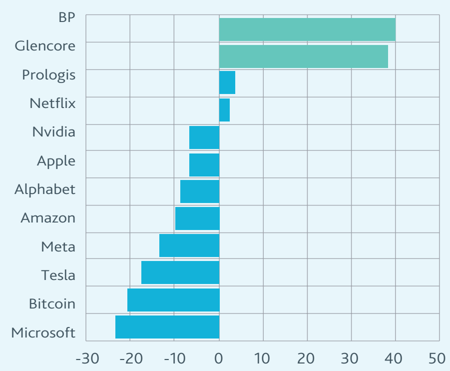
Source: iShares, April 2026

World stock markets in Q1 2026 (%'age growth)



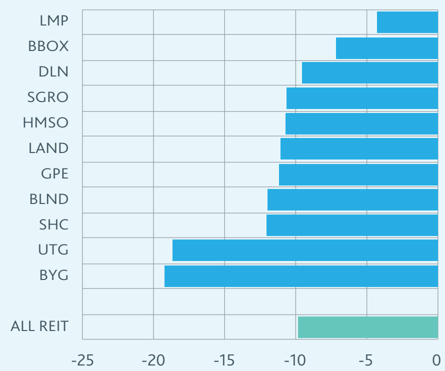
Source: Yahoo Finance, April 2026

Tech & other selected stocks in Q1 2026 (%'age growth)



Source: Yahoo Finance, April 2026

UK REIT price movement in 2025 (%'age growth)



Source: Yahoo Finance, April 2026

sector was particularly hard hit. Investors rotated towards AI infrastructure businesses such as semiconductors, cloud computing and data-centre providers, and away from traditional software stocks over concerns that generative AI could undermine the software-as-a-service subscription model the industry has relied on for years. Not unexpectedly, the energy sector has benefitted from higher oil prices as the conflict prevents shipping from transiting the Strait of Hormuz, restricts the supply of oil by producers and destroys critical infrastructure. In the UK, BP gained 40.1% in Q1 and Glencore, a natural resource company and a major producer and marketer of more than 60+commodities, advanced 38.3%.

The upwards momentum of the FTSE REIT index enjoyed at the end of last year continued into the early months of 2026 as real estate equity prices rose by 8.6% through to the end of February but fell -17.0% in March and ended the quarter down by -9.9%.

Investors marked down UK real estate equities in Q1 2026 primarily due to a resurgence in inflation fears ending expectations for multiple interest rate cuts in 2026. Investors moved from pricing in a gradual easing cycle to anticipating “higher-for-longer” rates or even further hikes to combat renewed inflationary pressure. While rental growth remained resilient in some areas, the lack of previously anticipated yield compression caused annual capital value growth expectations in the underlying assets to be reduced. At the end of Q1 the sell-off left the dividend yield on the REIT index at 6.2%

Segro, an owner, manager and developer of industrial and warehouse assets is the UK's largest REIT by market capitalisation. Although its share price ended Q1 down -10.6% it recently reported that, “the Middle East conflict has, so far, had no discernible effect on our leasing momentum and the health of our diverse customer base remains strong…” It reported £23 million of new headline rent contracted during the first quarter, including £11 million from the letting of vacant space in the existing portfolio and £12 million of development lettings. Rent reviews, lease renewals and regears in the UK generated an uplift of 38%.

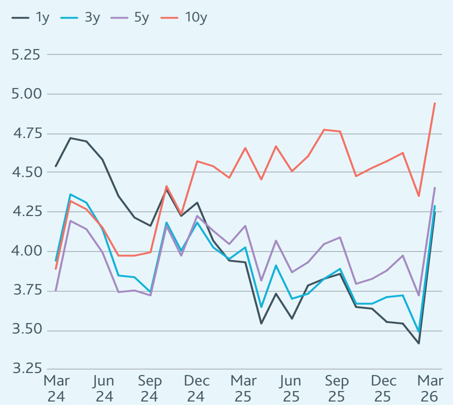
British Land with a portfolio focused on focused on office-led campuses in Central London, retail across the UK and London urban logistics issued an updated trading statement for the financial year ended March 2026. The statement highlighted a strong year of leasing with near record low availability supported by strong occupational fundamentals. Like for like rental growth was 6% rising to 12% on its London campuses.

Leasing momentum in British Land's London campuses has been strong, with 215 deals covering 1,692,000 sq ft including a 158,000

Gilt yield curve (%)

Source: Bank of England, April 2026

UK gilt yields (%)

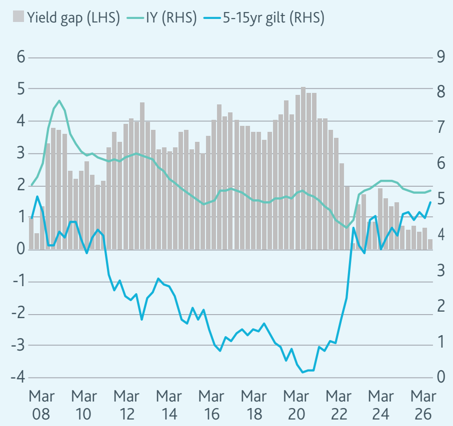


Source: Bank of England, April 2026

10-yr UK gilt yield

Source: Bank of England, April 2026

Property IY – Gilt yield gap (%)

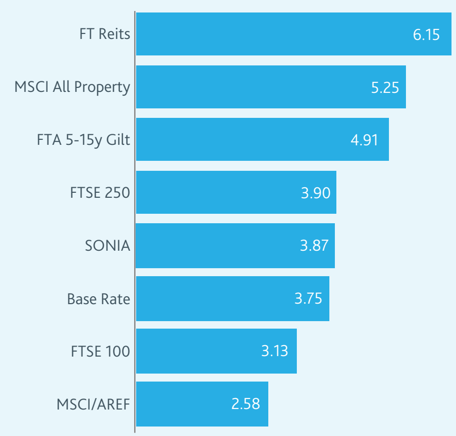


Source: MSCI & Bank of England, April 2026 sq ft letting to Anthropic, a leading AI company responsible for the “Claude” large language model. The retail park portfolio remains virtually full at 99% occupancy, with leasing ahead of previous passing rents.

In the first two months of 2026, the yield on UK gilts decreased across all maturities by 20 bps. However, after the opening shots of the latest Gulf conflict were fired, yields rose by 80bps for short-dated bonds and 60 bps or more for maturities of ten years and longer. Bond markets have taken a very different approach to the conflict. Unlike equity markets there has been no recovery in pricing. The yield on 10-year Gilts of 5.02% in mid-April after almost nine weeks of fighting is now nearing the same level reached in 2007 ahead of the Global Financial Crisis when markets tried to second-guess the impact of a deflating US housing bubble and defaulting mortgage-backed securities and collateralised debt obligations. Eventually Central Banks had to slash interest rates to near-zero and implement quantitative easing which brought bond yields down to less than 1% at one point.

The yield on the 5-15 year gilt index softened by 41 bps in the first quarter to 4.91%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q1 of -1.82%. Over the last 12 months, the gilt index has provided a total return of 3.35% as yields have increased by 26 bps since March 2025. Changes in the risk-free rate are a key metric referenced in the valuation of commercial real estate. There is already some evidence that property yields have started to de-rate. A prolonged period with gilt yields at the current level may see valuers re-appraising capitalisation rates.

UK asset yields Q1 2026 (%)



Source: Yahoo Finance & MSCI, April 2026

5. Commercial property market performance

- **All Property total returns were 0.4% in March, one of the weakest monthly figures in the last two years. The market is slowing as sentiment weakens, though it remains above negative territory while participants await clearer impacts. All Property total returns were 0.4% in March, one of the weakest monthly figures in the last two years.**
- **Rolling 3-month UK commercial real estate performance remained static in Q1. All Property total returns, as recorded by the MSCI Monthly Index, increased very slightly to 1.43% from 1.42% in Q4. Capital growth showed no change over the quarter after a rise of just 4bps three months earlier. Annualised MRV growth of 2.0% in Q1 was a disappointment compared to year-on-year MRV growth of 3.1% but reflects weak macro-economic growth.**

The MSCI Monthly Index comprises around £300 million of assets across 32 funds, with an average asset size of just under £24 million. It is predominantly made up of core open ended non-listed real estate vehicles with some closed-ended and listed vehicles.

In December 1986, the constituent sectors of the index were 45% Retail, 42% Offices and 12% Industrial. Today Industrials dominate, representing 46% of the index. Retail represents 21% of the index, and Offices 18%.

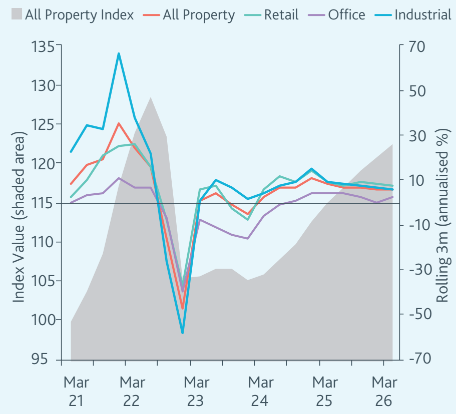
Other Property - including Residential, Hotels, Healthcare and Leisure is now 14%. There are more industrial assets in the South East within the index than there are office assets in total.

As noted above, risk free rates softened by 41 bps in Q1, and the All Property initial yield itself softened by 6 bps. Consequently, the property initial / gilt yield gap has decreased by 35 bps to 0.34% once again causing concerns over downward adjustments to pricing levels. Market rental value growth across most segments of the market has so far supported current pricing levels but this assistance is being weakened as MRV growth slows.

All Property total returns of 0.4% in March, as recorded by the MSCI Monthly Index, were amongst the weakest of the last two years. As the latest crisis develops the market is slowing. Sentiment has weakened but the market is not yet in negative territory as investors and occupiers wait to see the real impact.

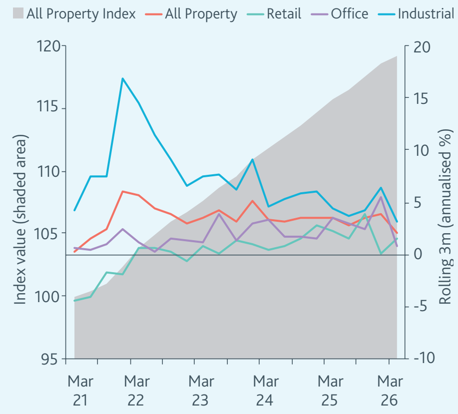
Rolling 3-month UK commercial real estate performance remained static in Q1. All Property total returns increased very slightly to 1.43% from 1.42% in Q4. Capital growth showed no change over the quarter after a rise of just 4bps three months earlier. Although property equivalent yields hardened by 10 bps they made little material contribution to changes in valuations, furthermore initial yields softened by 6 bps. All Property market rental value growth in Q1 decreased to 0.5% from 0.9% in Q4. First quarter income returns remained at 1.4%.

Total returns (%) by sector



Source: MSCI, April 2026

MRV growth (%) by sector



Source: MSCI, April 2026

Index performance continues to be driven by income returns as the modest contribution from capital growth diminishes further. Any capital growth is currently reliant on MRV growth rather than yield compression and this has recently slowed too. Annualised MRV growth of 2.0% in Q1 was a disappointment compared to year-on-year MRV growth of 3.1% but reflects weak macro-economic growth.

All Property total returns decreased to 6.5% from 7.1% in the year to December and in the year to date have further decreased to an annualised rate of 5.9%. Retail continues to be the strongest sector but total returns of 8.3% year-on-year in Q1 decreased from 8.8% in December and 11.4% in the year to March 2025. Shopping Centres were the best performing segment although total returns of 10.8% were down more than one percentage point compared to 11.9% year-on-year in Q4 2025. Offices are once again the weakest sector, but their performance was boosted by the West End and Midtown office segment which delivered total returns of 8.0% driven by MRV growth of 6.5%. Industrial total returns decreased to 7.3% year-on-year in Q1 from 8.0% in Q4 2025.

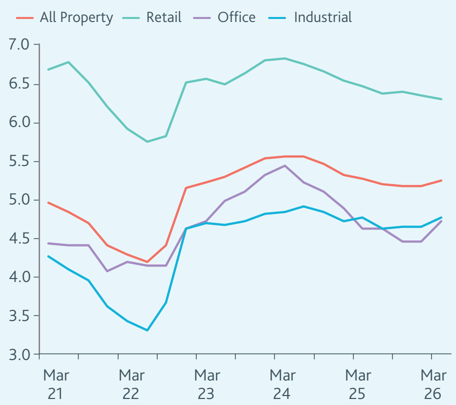
All Property capital growth decreased from 1.3% year-on-year in December to 0.8% y-on-y in March. MRV growth decreased to 3.1% y-on-y in Q1 from 3.4% in Q4 2025 but income returns remained stable at 5.7% year-on-year.

Property equivalent yields rose sharply in 2022 and 2023 as interest rates increased in response to higher inflation driven by an oil price shock. Yields have since stabilised at this higher level albeit with some quarterly volatility. All Property equivalent yields hardened by 22 bps in the 12 months to March but have made a negligible contribution to any change in valuations over the course of the last year. Contrary to past experience, capital values have remained stable while rental values have improved. This is largely due to reduced liquidity compounded by ongoing macroeconomic uncertainty. Lower transaction volumes limit price discovery and keep yields relatively elevated.

The recovery stage in the current cycle continues to disappoint compared to the vigorous bounce in capital growth enjoyed after previous downturns in both 1991-92 and 2008-09. Despite five consecutive reductions in Bank Rate from 5.0% to 3.75%, the market has not experienced a “V” shaped recovery reminiscent of the episodes in 1993-94 or 2009-10. Investors can now add the impact of another war in the Gulf to their list of concerns including weak economic growth, persistent inflation and doubts over the future path of monetary policy.

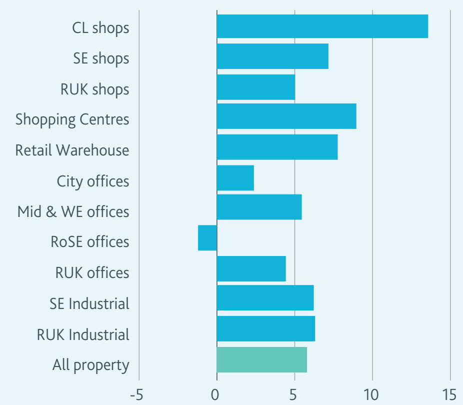
The tables included contain further performance data for UK commercial real estate in Q1 2026.

Initial yield (%) by sector



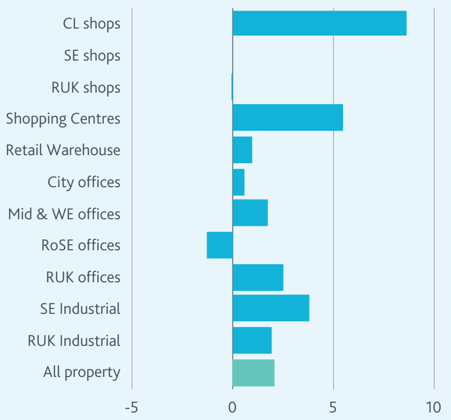
Source: MSCI, April 2026

Total returns (%) by segment - Q4 2025 annualised



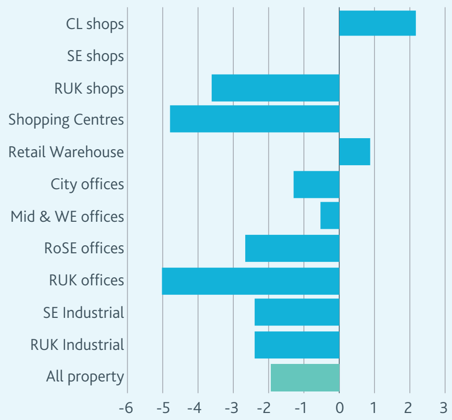
Source: MSCI, April 2026

MRV growth (%) by segment Q4 2025 annualised



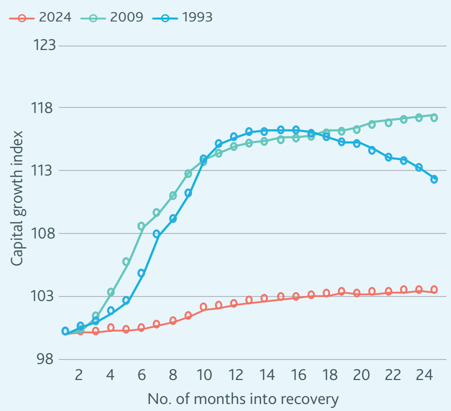
Source: MSCI, April 2026

Yield impact (%) – Q4 2025



Source: MSCI, April 2026

The pace of recovery from market downturn by quarter



Source: MSCI, April 2026

Total returns (%)

	Mar	3m	6m	12m
All Property	0.4	1.4	2.9	6.5
Retail	0.6	1.9	4.0	8.3
Office	0.2	0.7	0.8	2.6
Industrial	0.4	1.5	3.2	7.3
Annualised				
All Property	5.1	5.9	5.8	6.5
Retail	7.2	7.9	8.2	8.3
Office	3.0	2.9	1.7	2.6
Industrial	5.0	6.2	6.5	7.3

Source: MSCI, April 2026

Capital growth (%)

	Mar	3m	6m	12m
All Property	0.0	0.1	0.1	0.8
Retail	0.0	0.3	0.6	1.3
Office	-0.2	-0.6	-1.8	-2.7
Industrial	0.0	0.3	0.8	2.3
Annualised				
All Property	-0.5	0.2	0.2	0.8
Retail	0.4	1.1	1.3	1.3
Office	-2.3	-2.4	-3.5	-2.7
Industrial	0.1	1.3	1.6	2.3

Source: MSCI, April 2026

Income return (%)

	Mar	3m	6m	12m
All Property	0.5	1.4	2.8	5.7
Retail	0.5	1.6	3.3	6.9
Office	0.4	1.3	2.6	5.4
Industrial	0.4	1.2	2.4	4.9
Annualised				
All Property	5.7	5.6	5.6	5.7
Retail	6.7	6.7	6.8	6.9
Office	5.4	5.4	5.3	5.4
Industrial	4.9	4.9	4.9	4.9

Source: MSCI, April 2026

MRV growth (%)

	Mar	3m	6m	12m
All Property	0.2	0.5	1.5	3.1
Retail	0.1	0.4	0.4	1.7
Office	0.2	0.2	1.5	2.9
Industrial	0.2	0.8	2.3	4.3
Annualised				
All Property	2.2	2.0	2.9	3.1
Retail	1.5	1.5	0.8	1.7
Office	2.5	0.7	3.1	2.9
Industrial	2.3	3.1	4.7	4.3

Source: MSCI, April 2026

Net initial yield (%)

	Mar	3m	6m	12m
All Property	5.2	5.2	5.2	5.3
Retail	6.3	6.4	6.4	6.5
Office	4.7	4.5	4.5	4.6
Industrial	4.8	4.7	4.6	4.8

Source: MSCI, April 2026

6. Investment in property

- **The traditional year-end push to conclude transactions increased investment volumes by 93% in the fourth quarter of last year compared to the third quarter and were an encouraging 44% above the long run post GFC quarterly average. Preliminary estimates suggest that investment volumes in Q1 2026 have suffered from a new year hangover and decreased by -56% quarter on quarter and were -37% below the long-run average.**
- **In Q1, private capital and domestic institutions surpassed cross-border investment in the UK market. Supporting data shows foreign direct investment (FDI) fell from 58% of acquisitions over five years to just 45% in the past year.**

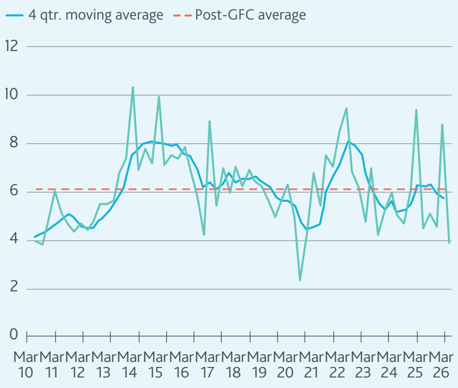
A rise in the overall value of transactions can be driven by a small group of deals struck at higher prices. The best gauge of market liquidity is the number of transactions which gives investors greater price transparency and proof of a deep and liquid market into which they can sell on the assets if needed. Therefore, we focus in this section on transaction numbers as well as investment volumes represented by the current value of investment transactions adjusted for capital growth.

All Property investment volumes remain on a downward trend limiting the chance of any capital value uplift from yield compression. In 2025 Investment volumes were lower than 2021, 2022 and 2024 but no better than 2023. However, the traditional year-end push to conclude transactions increased investment volumes by 93% in the fourth quarter of last year compared to the third quarter and were an encouraging 44% above the long-run quarterly average.

Preliminary estimates suggest that investment volumes in Q1 2026 have suffered from a new year hangover and decreased by -56% quarter on quarter and were -37% below the long run average. As usual the latest numbers for Q1 are likely to be revised in the coming months. However, first quarter UK investment volumes so far recorded are currently the lowest since at least 2019.

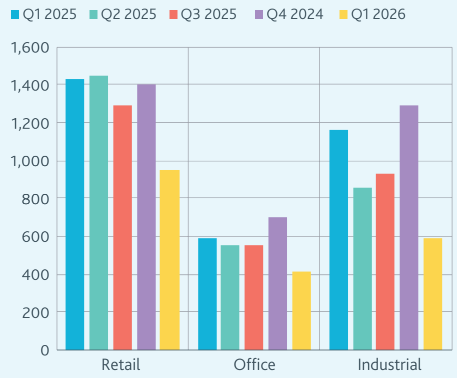
In the 12 months ending December 2025, the office sector accounted for 46% of transactions. Retail represented 44% of transaction numbers and industrials a further 10%. Offices made up 49% of investment volumes in Q4; retail represented a further 42% and industrials made up the remaining 9%.

All property investment volumes (£bn)



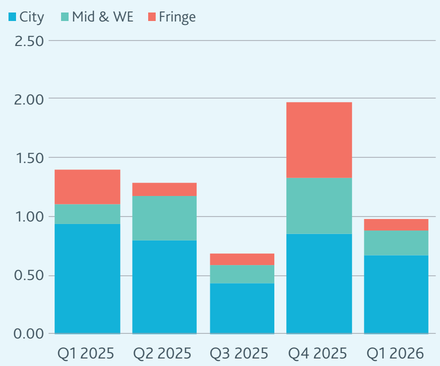
Source: CoStar, MSCI & APR, Jan 2026

UK investment transactions by year



Source: CoStar, MSCI & APR, Jan 2026

UK investment volumes by quarter (£bn)



Source: CoStar, MSCI & APR, Jan 2026

All UK investment volumes in Q1(£bn)

Source: CoStar, MSCI & APR, Jan 2026

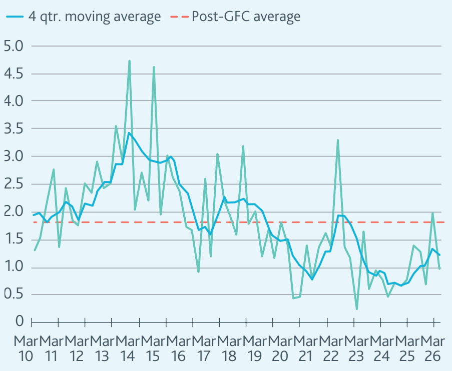
Investment volumes in the UK's key Central London office market have been slowly recovering since mid-2024. Investment volumes in Q4 2025 were up 187% over Q3 but were just 8% above the long-term average. This improvement was unlikely to be sustained into the new year and as expected, preliminary estimates for Q1 2026 indicate that investment volumes decreased -50% quarter-on-quarter. As usual the latest numbers for Q1 are likely to be revised in the coming months.

The revised data indicates that cumulative four quarter Central London investment volumes in 2025 exceeded both 2024 and 2023 but investment transactions numbered 351, down from 441 in 2024 but higher than 2021-2023. The average transaction value rose sharply to £15.2million from £6.0 million in 2024 confirming that the market witnessed a smaller number transaction but with a higher value. City investment volumes surpassed those across the West End and Midtown and made up 44% of Central London office investment transactions in Q4; Midtown and West End offices represented 24% and Fringe offices made up the remaining 33%.

This month MSCI reported that cross-border capital, which has historically been the dominant source of investment capital accessing the UK market, was supplanted by both private capital and domestic institutions in Q1. This reflects not only ongoing global uncertainty but also that domestic investors are more comfortable with pricing opportunities offered after UK valuations have been more aggressively marked to market following recent market turbulence. Data from other sources seems to support the declining weight of foreign direct investment (FDI). In the last five years FDI was behind 58% of acquisitions but in the last 12-months FDI's proportion has decreased to 45%.

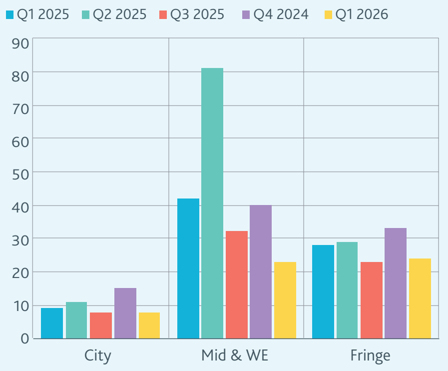
The domestic lending market has slowed slightly in the last three months. Outstanding loans from UK banks and financial institutions to real estate businesses grew 11.4% in the 12 months to February, to £147bn, according to Bank of England data. In November last lending grew 11.7% y-on-y representing the fastest year-on-year growth rate since at least 2010. While banks may be willing to boost their lending to property, investors will be holding back until the economic and interest rate outlook becomes more certain.

Central London office investment volumes (£bn)



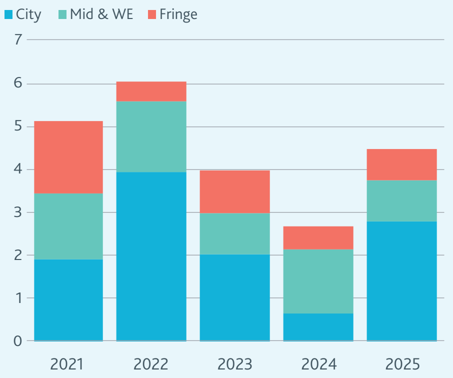
Source: CoStar, MSCI & APR, Jan 2026

Central London office transactions by year



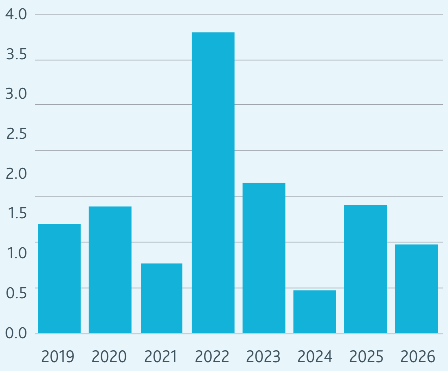
Source: CoStar, MSCI & APR, Jan 2026

Cumulative Central London office investment volumes by quarter (£bn)



Source: CoStar, MSCI & APR, Jan 2026

CLO investment volumes in Q1 (£bn)



Source: CoStar, MSCI & APR, Jan 2026

7. Outlook & house view

- **February's IPF consensus outlook shows that All Property commercial market performance is expected to weaken from the November consensus at 8.3% to 8.0% in 2026. However, these latest forecasts were released prior to the onset of the conflict in the Middle East and are likely to be revised further downwards at the next release.**
- **Market rental value growth is expected to slow in 2026 but supported by some key segments, will remain above the 2% post GFC annualised average. All Property total returns are now expected to reach 9.0% in 2026, with a three-year annualised forecast of 8% through to 2028.**

Even before the conflict started, forecasters' confidence in the outlook for UK commercial property in 2026 weakened in Q1. February's Investment Property Forum (IPF) consensus forecasts for total returns in 2026 decreased to 8.0% from 8.3% in November.

February's IPF consensus outlook for 2027 remained stable at 8.1%. Expectations are now that 2027 will mark the cyclical peak before market performance slips back. The IPF's average annualised total return forecast over the next three years to the end of 2028 has decreased from 8.0% in November last to 7.8% in February 2026.

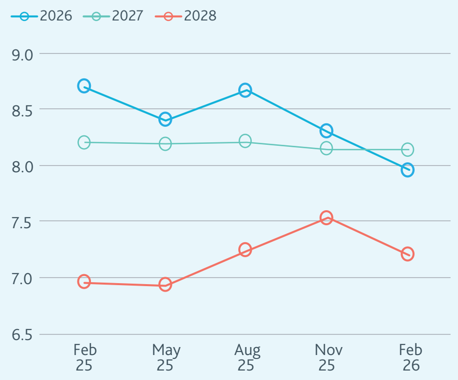
Total return expectations for 2026 increased across all segments in February's survey except West End Offices. Expectations for 2026 remain highest for Shopping Centres and Retail Warehouses The outlook continues to be weakest for Rest of UK offices.

The range of forecasts for 2026 widened in February, with the maximum prediction increasing to 9.9% and the minimum decreasing to 6.5%, a range of 3.4%, compared to 2.53% in November, suggesting the consensus view is widening again in the face of the uncertain economic headwinds. The range of forecasts for 2027 has narrowed to 3.0% for 2027, ranging from 6.9% to 9.9%. These forecasts, however, were compiled before the start of conflict in the Gulf.

The Q1 2026 RICS UK Commercial Property Monitor shows a tougher market, especially for investment. Respondents often mention heightened geopolitical tensions in the Middle East as impacting confidence. Credit conditions have worsened significantly this quarter, and the short-term outlook for capital values is negative.

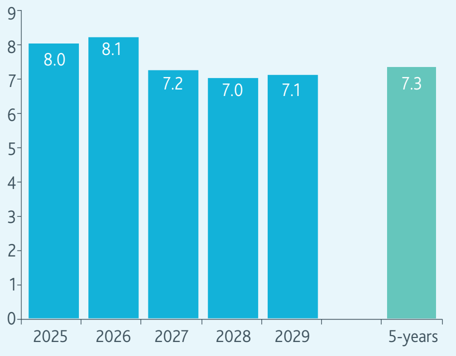
At the same time, the percentage of respondents who believe the market is in the early downturn phase has increased to 27% from 17% in Q4, indicating a clear decrease in those expecting an 'early upturn'. However, at least for now, conditions in the occupier market seem less affected, though the overall trend remains muted.

IPF Consensus forecast evolution (%)



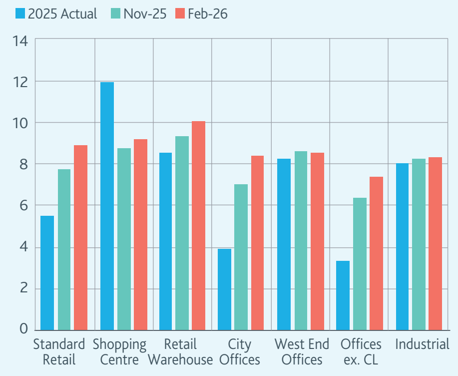
Source: IPF, Feb 2026

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



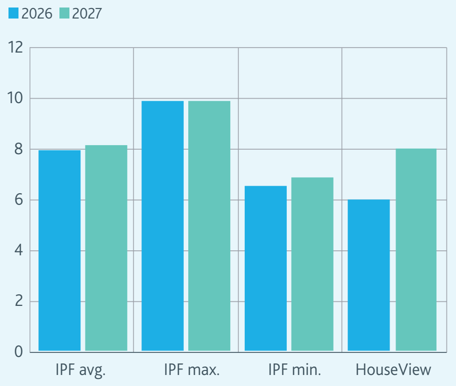
Source: IPF, Feb 2026

IPF 2026 total return forecasts by sector Feb 26 v Nov 25 (%)



Source: IPF, Feb 2026

UK commercial total return forecast range (%)



Source: IPF, APR & Cluttons, Feb & Apr 2026

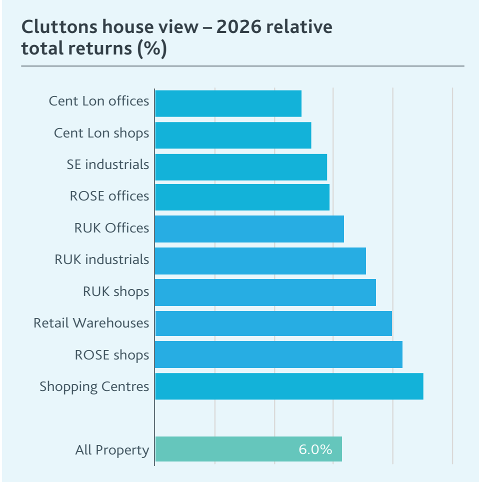
The central forecast from the House View model is revised on a quarterly basis to reflect the changing macro-economic outlook and the current performance of commercial real estate. We started this year believing that the momentum behind UK commercial real estate's recovery would improve and that All Property total returns of 7.1% in 2025 would grow to 9% in 2026. Expectations were that inflation would continue a downward course allowing the MPC to further reduce base rate to boost the sub-par performance of the economy. Although we expected All Property market rental value growth to slow from 3.4% y-on-y at the end of Q4 2025, we nevertheless expected robust growth in Central London office and Retail Warehouse rental values. Lastly, we suggested a reduction in the risk free rate used to benchmark the capitalisation rate of property income, could be the result of stronger macro-economic growth and improved national finances. This outcome is now very much in doubt as a result of the attacks by the USA and Israel on Iran to which we have referred frequently throughout this report.

The current geo-political situation is broadly similar to the months after the Russian invasion of Ukraine when oil prices surged driving consumer price inflation higher. Central Banks reacted by increasing base rates and government bond yields reacted in a similar fashion.

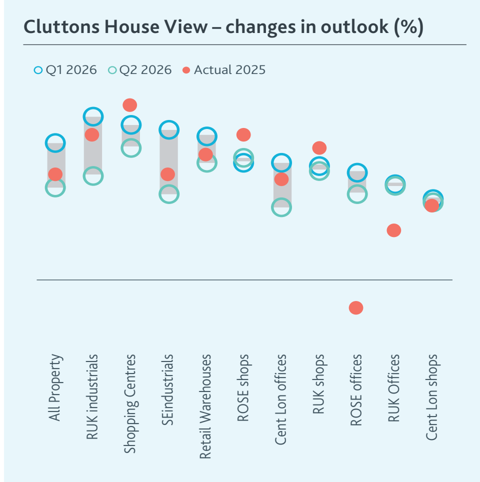
At the start of 2022, UK year-on-year CPI inflation was 7.8%, which was attributed to supply side shortages after Covid pandemic lockdowns; UK base rate was 0.25% and the yield on 10-year gilts was 1.32%. At the end of February 2022 Russian troops invaded Ukraine. The price of oil reached $133 per barrel and remained above $100 for almost 5 months. CPI inflation peaked at 14.0%. Eighteen months later UK base rates had risen to 5.25% and 10-year gilt yields had reached 4.51%. One consequence of this tightening of monetary policy was that annualised UK GDP growth slowed from 2.8% to 0.4% between June 2022 and June 2024. The MSCI's All Property equivalent yield de-rated by 200bps and capital values fell at an annualised rate of -15% but market rental values continued to increase at 3.5% a year.

In the absence of an immediate ceasefire and free access for shipping through the Strait of Hormuz, our base forecast has been reduced to 6% in 2026 and 7% over the three years to end-2028 assuming that there is no monetary tightening.

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%-5%. Performance could pick up to an annualised 6% 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.



Source: IPF, APR & Cluttons, Feb & Apr 2026



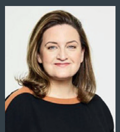
Source: IPF, APR & Cluttons, Feb & Apr 2026

CLUTTONS
INVESTMENT MANAGEMENT

cluttonsim.com

For further details contact:

Jamie McCombe
Head of investment management
+44 (0)7958 207 027
jamie.mccombe@cluttonsim.com



Gráinne Gilmore
Director of research and insight
+44 (0) 7967 271 321
grainne.gilmore@cluttons.com

Researched on behalf of Cluttons Investment Management by Alexander Property Research.