CLUTTONS
INVESTMENT MANAGEMENT

cluttonsim.com

Commercial property examiner

Q2 | 2026

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.**

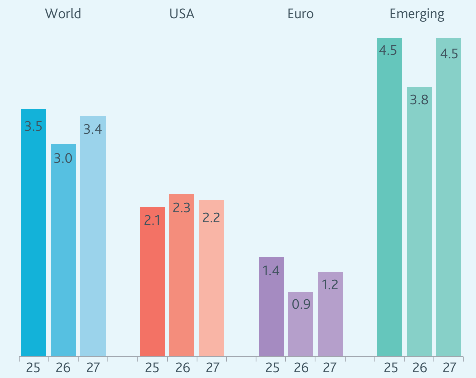
The global geo-political environment remains threatening but the worst-case scenarios circulating last quarter have not materialised. Since the start of the latest conflict in the Middle East in February, President Trump has claimed victory and an end to hostilities on more than 20 separate occasions. 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.

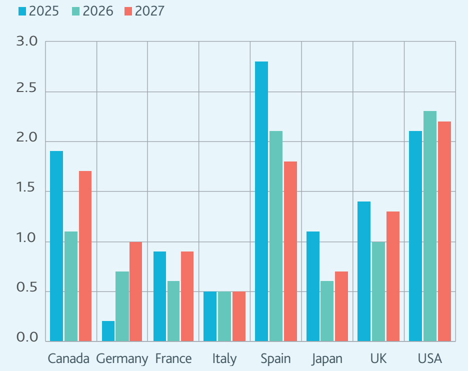
Growth in advanced economies is projected at 1.7% in 2026 and 1.8% in 2027. Outcomes remain uneven within the group. Net energy exporters benefit from higher energy prices, whereas net energy importers experience a drag unless they are lifted by technology-related activity. In the United Kingdom, growth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

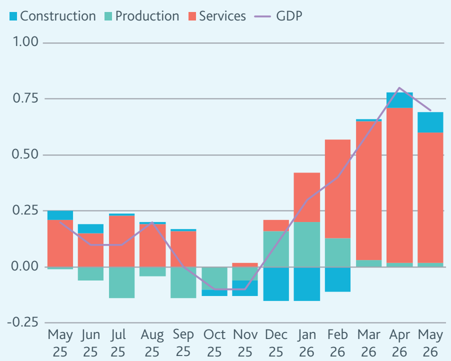
UK monthly real GDP is estimated to have grown by 0.1% in May 2026, following a 0.1% contraction in April 2026. In the three months to May, GDP is estimated to have grown by 0.7% compared to the previous three-month period, following growth of 0.4% in the three months to February.

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%.

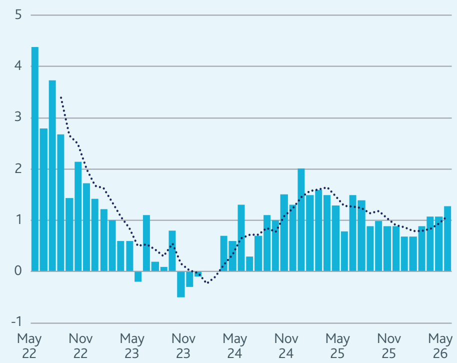
To date, business surveys and other indicators have not provided much evidence that the conflict had led to a rapid deterioration in the outlook for UK economic growth, although the outlook for growth is expected to be subdued. According to July's S&P Global UK PMI UK private sector output decreased 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)



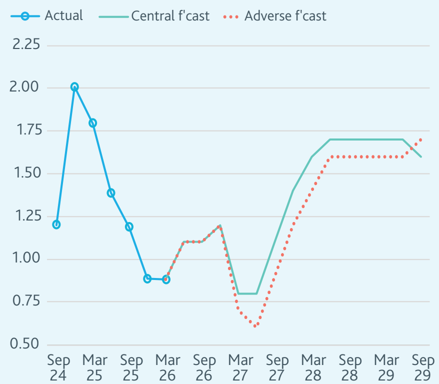
Source: ONS, July 2026

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

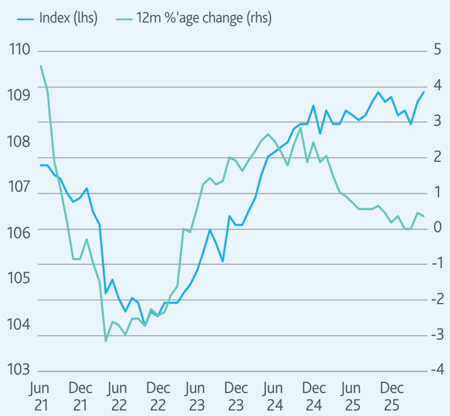
- **The 12-month rate of inflation fell to 2.6% in June, the lowest rate since March 2025 as petrol prices eased for the first time since the start of the conflict in the Middle East.**
- **Annual wage growth excluding bonuses slowed to 3.4% in the three months to May. Although average pay rose by 0.3% 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.

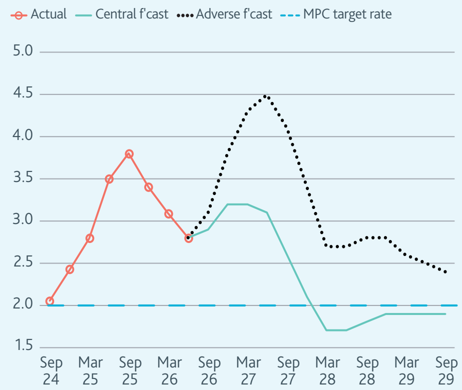
Annual wage growth excluding bonuses continues to slow, decreasing to 3.4% in the three months to May, compared to 3.6% in the three months to February. On a real basis, average pay increased by 0.3% in the year to May slightly easing the cost-of-living crisis although polling data from Ipsos UK shows 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)



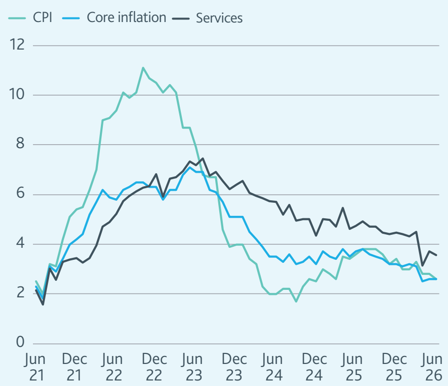
Source: ONS, July 2026

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.

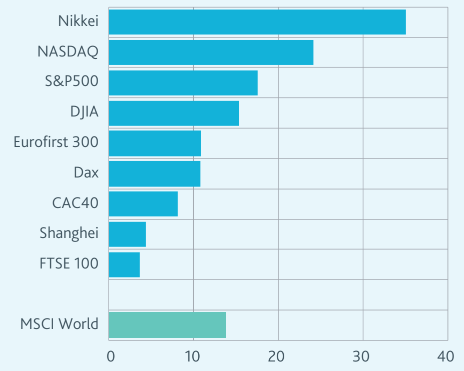
European and UK markets

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

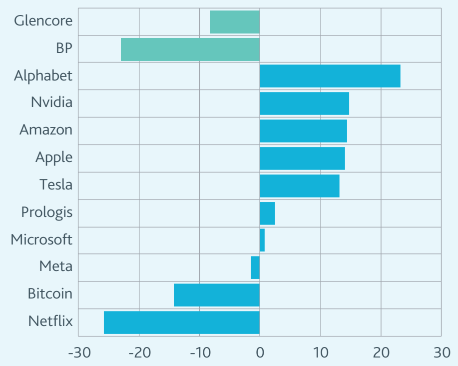
Source: iShares, July 2026

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



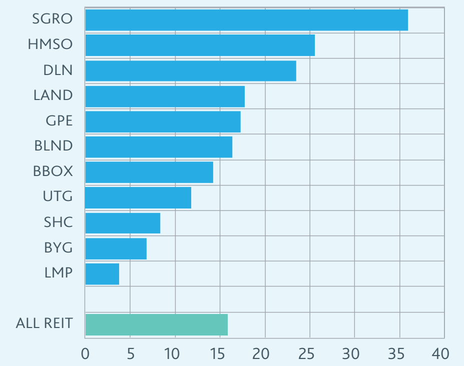
Source: Yahoo Finance, July 2026

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.

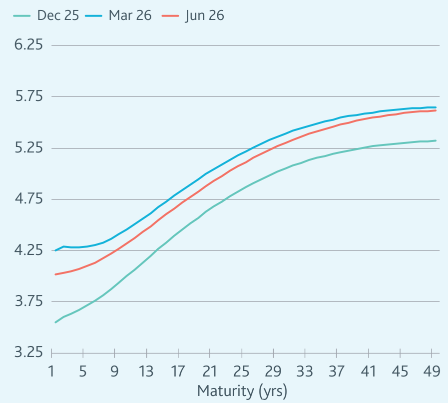
Shaftesbury Capital reported a strong start to 2026, with its prime West End portfolio continuing to benefit from robust occupier demand despite geopolitical uncertainty. Between January and April, the company completed 151 leasing transactions, with rents achieved 5% above estimated MRV and 18% above 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.

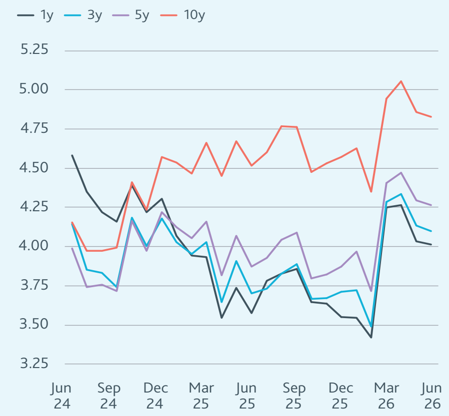
The real estate sector's headlines have been dominated by the bid from the world's biggest logistic investor, Prologis for Segro, the UK's

Gilt yield curve (%)



Source: Bank of England, July 2026

UK gilt yields (%)

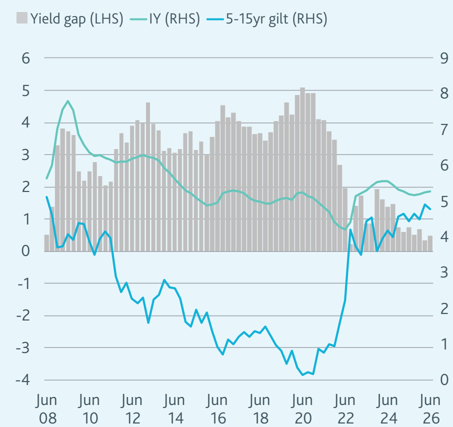


Source: Bank of England, July 2026

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.

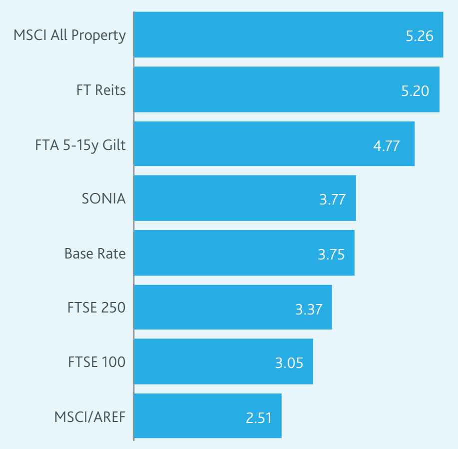
Changes in the risk-free rate are a key metric referenced in the valuation of commercial real estate. A prolonged period with gilt yields at the current level may see valuers re-appraising capitalisation rates. There is already some evidence that property yields have started to de-rate (see "Commercial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

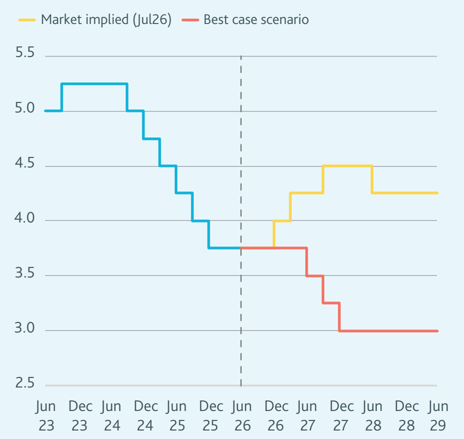
Although the market-implied path for interest rates remains elevated, the median forecast in HM Treasury's June comparison of independent forecasts for the UK economy suggests that there is little likelihood of a change to Bank Rate in 2026. There are, however, expectations of at least one 25 bp cut 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.

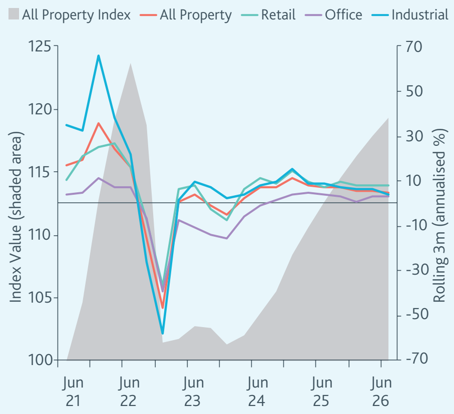
Despite weaker liquidity, property returns remained positive overall, supported almost entirely by income returns and strengthening rental growth rather than capital appreciation. Risk free rates hardened by 14 bps in Q2, and the All Property initial yield itself softened by 2 bps. Consequently, the 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.

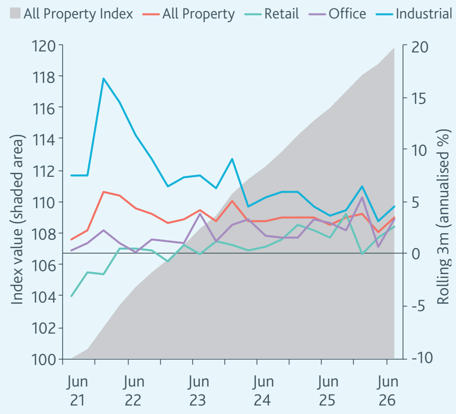
All Property total returns decreased to 5.9% from 6.5% in the year to March and in the year to date have further decreased to an annualised rate of 5.4%.

Total returns (%) by sector



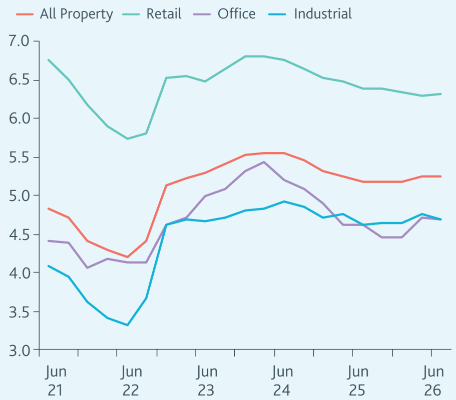
Source: MSCI, July 2026

MRV growth (%) by sector



Source: MSCI, July 2026

Initial yield (%) by sector



Source: MSCI, July 2026

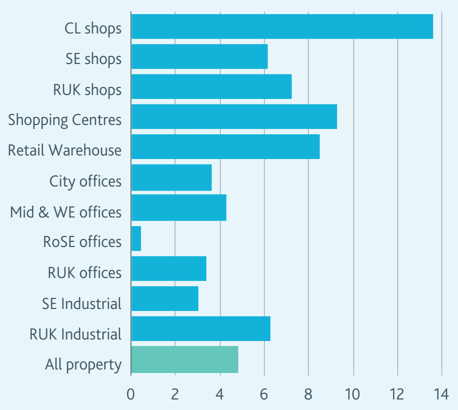
Shopping Centres continue to be the best performing segment after years of under-performance providing a total return performance of 10.3% over the last 12-months.

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.

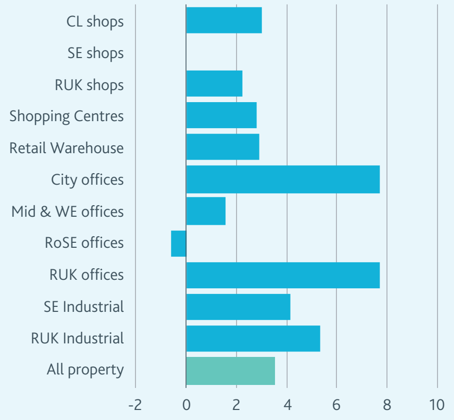
The tables included contain further performance data for UK commercial real estate in Q2 2026.

Total returns (%) by segment - Q4 2025 annualised



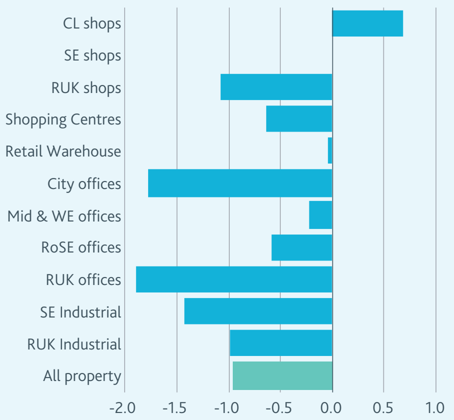
Source: MSCI, July 2026

MRV growth (%) by segment Q4 2025 annualised



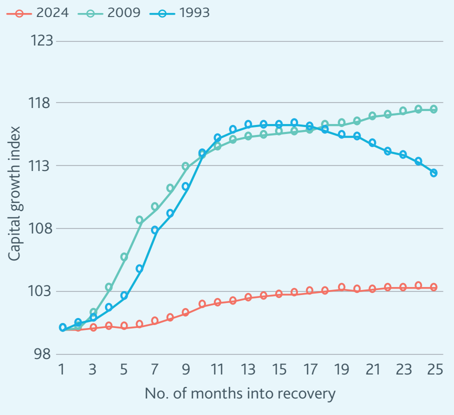
Source: MSCI, July 2026

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.**

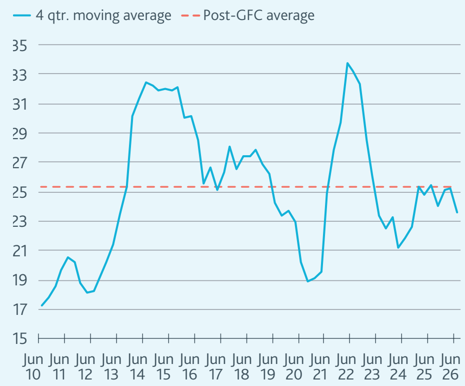
UK All Property transactions

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.

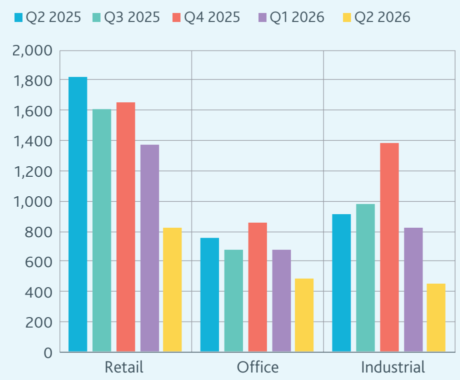
In the Retail sector, lower retail transaction volumes and improving investment performance reflect stronger occupational fundamentals rather than increased investor demand. Office investment volumes remain broadly consistent with previous years, but investment is concentrated on prime assets in top 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)



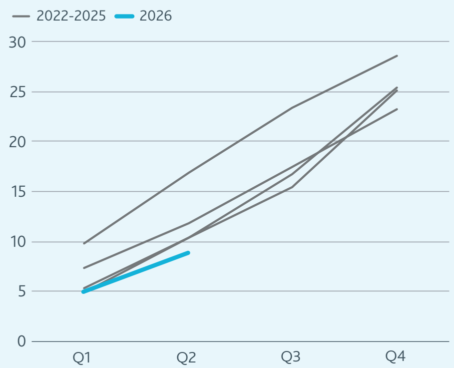
Source: CoStar, MSCI & APR, July 2026

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].

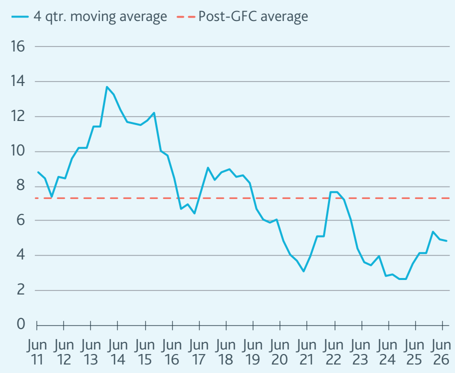
The City made up 69% of Q1 Central London office investment volumes in 10 transactions; Midtown and West End represented a further 20% in 26 transactions and City Fringe, Docklands and Southbank made up the remaining 10% in 20 transactions.

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.

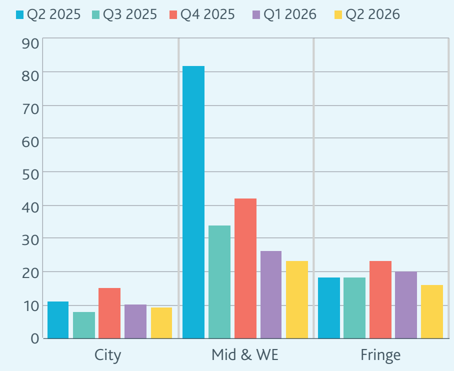
Liquidity has continued to rise since the turn of the year. Outstanding loans from UK banks and financial institutions to real estate businesses grew 12.2% in the 12 months to April, to £149bn, according to Bank of England data, representing the fastest year-on-year growth rate since at least 2010. May's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

Central London office investment volumes (£bn)



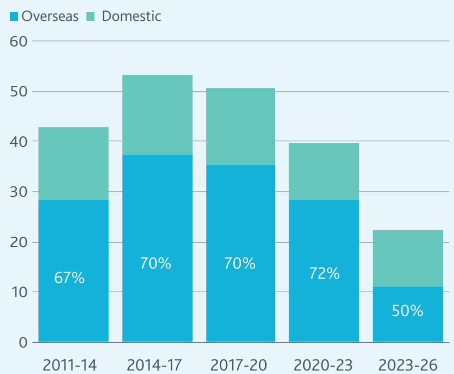
Source: CoStar, MSCI & APR, July 2026

Central London office transactions by year



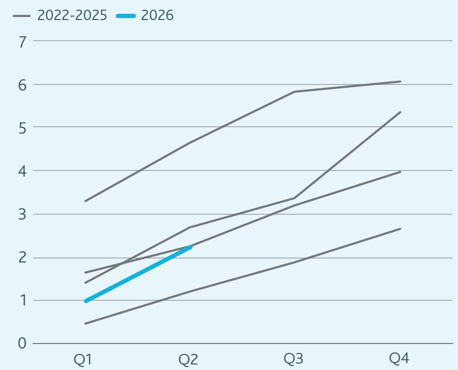
Source: CoStar, MSCI & APR, July 2026

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. 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%.

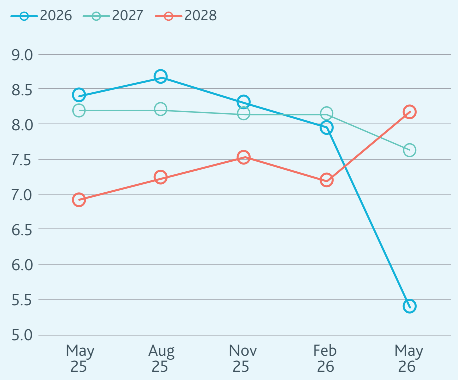
Total return expectations for 2026 decreased across all segments in May's survey. West End offices and standard Retails bore the largest cuts but expectations for 2026 remain highest for Shopping Centres and Retail Warehouses.

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.

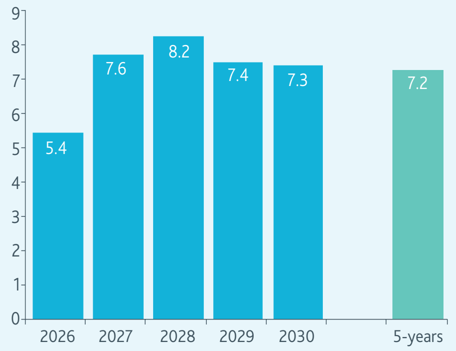
Investment conditions remain weaker than occupier markets. Industrial assets drew the strongest investor interest, while office and retail demand stayed subdued. Overseas enquiries remained negative for a fourth quarter. Capital value expectations still favour prime offices and industrial property, but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

IPF Consensus forecast evolution (%)



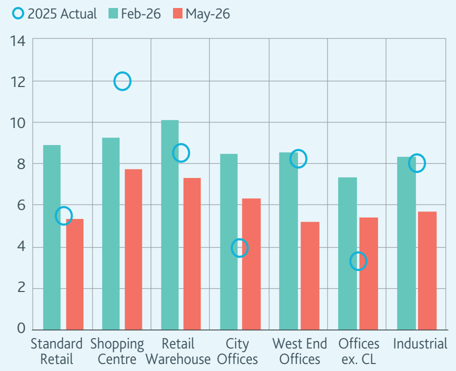
Source: IPF, May 2026

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



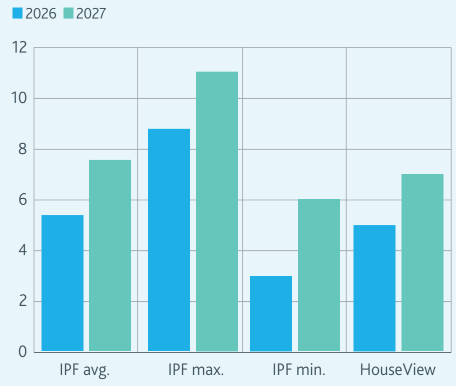
Source: IPF, May 2026

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%.

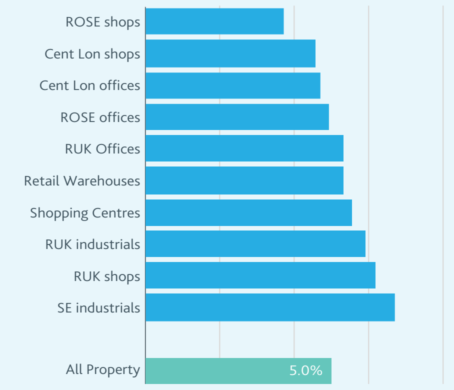
On a brighter note, we do not think a collapse in values is likely. In September 2022 the 10-year gilt yield rose 124 bps in response to the infamous Mini Budget and the All Property IY rose 87 bps in the next three months – a pass-through rate of 71%. Since the end of February, the 10-year gilt yield 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 (%)



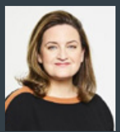
Source: IPF, APR & Cluttons, July 2026

CLUTTONS
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.