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Commercial property examiner

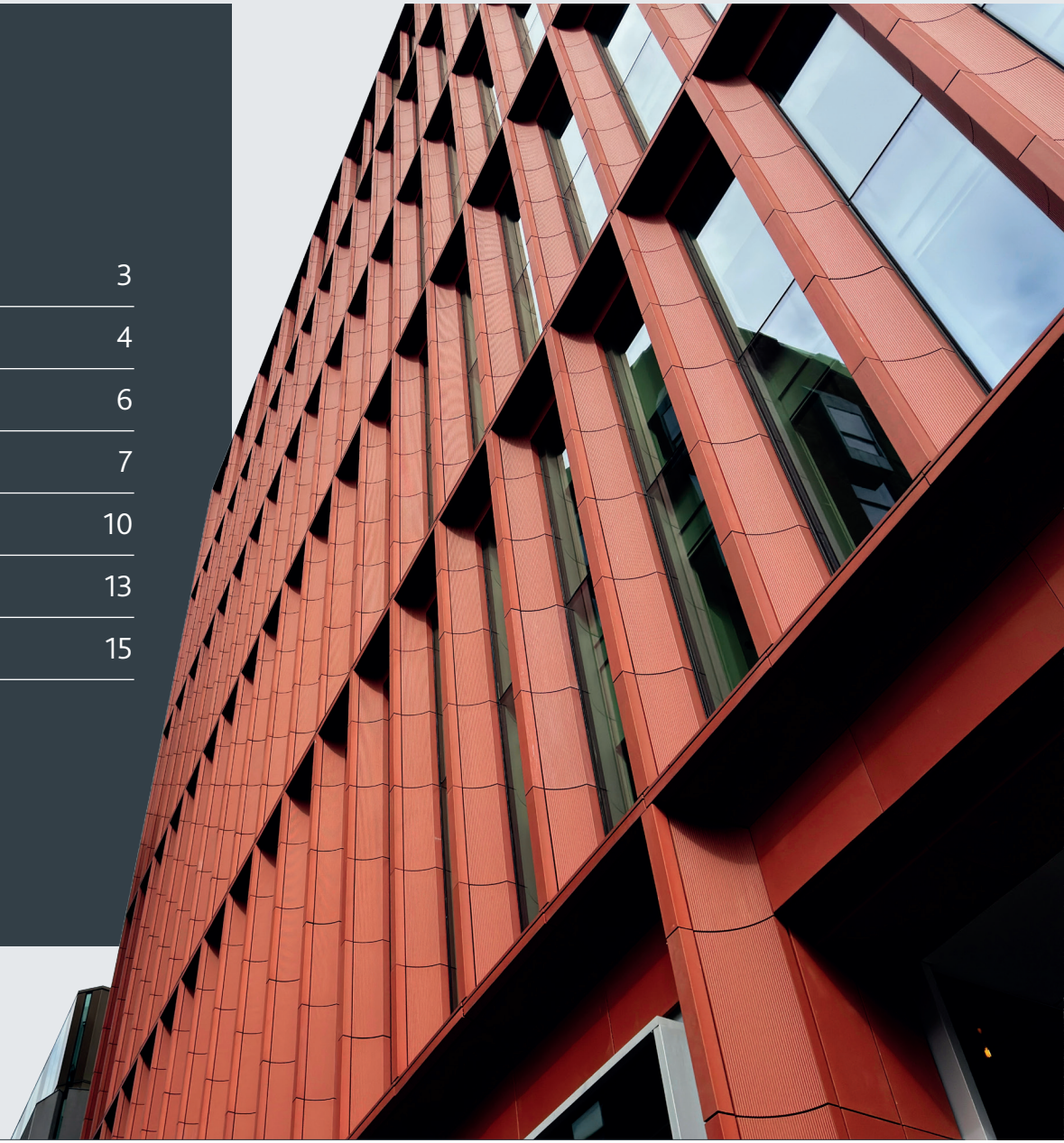
Q3 | 2026



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Contents

1. Key takeaways 3
2. The UK economy 4
3. Inflation & prices 6
4. Stock markets, interest rates & asset yields 7
5. Commercial property market performance 10
6. Investment in property 13
7. Outlook & house view 15



1. Key takeaways

The economic repercussions of the Middle East conflict have intensified, with disruption to global energy supplies driving higher inflation and borrowing costs. Growth in the UK has been supported by technology-related services and AI investment, although the recovery remains narrowly based, with construction and other sectors struggling. Rising energy prices have reversed the recent improvement in inflation, prompting central banks to reconsider monetary tightening. The Bank of England faces increasing pressure to raise interest rates despite subdued labour demand and fragile consumer confidence. The Office for Budget Responsibility downgraded it's forecast for UK GDP growth to 1% next year.

Global equity markets delivered a mixed performance in Q3, with **US technology stocks** outperforming amid continued enthusiasm for artificial intelligence, while **Asian and European equities** weakened under pressure from geopolitical uncertainty, elevated valuations and rising interest rates. **UK equities** proved relatively resilient, supported by energy and commodity stocks. **UK REIT** share prices declined despite strong occupational markets and continued rental growth, reflecting concerns over financing costs and property valuations. **Sovereign bond yields** rose sharply across developed economies as investors reassessed inflation expectations and the outlook for monetary policy. **UK gilt yields** increased sharply, placing upward pressure on borrowing costs and property investment yields.

UK commercial property performance weakened further in Q3, with All Property total returns slowing as falling capital values offset continued rental growth, leaving income as the principal source of returns. Retail outperformed, benefiting from attractive yields and improving occupational demand, while offices remained the weakest of the traditional sectors despite strong rental growth and robust valuations for prime Central London assets. Industrial performance moderated as rental growth slowed and investment yields softened. Investment transaction volumes declined further, remaining substantially below historical averages, while domestic lending conditions showed signs of tightening. Rising gilt yields and borrowing costs have increased pressure on valuations, reinforcing differences between sectors and asset quality.

Expectations for UK commercial property returns have weakened further, with the RE:UK consensus forecasts revised downwards and the range of expectations widening amid increasing economic uncertainty. Cluttons has consequently reduced its forecast for 2026 All Property total returns to 4%–5%, anticipating further modest capital value declines as higher gilt yields and financing costs feed through into investment pricing. Nevertheless, resilient rental income and the absence of widespread forced selling should limit the risk of a severe correction. Looking ahead, easing geopolitical tensions, moderating inflation and improving monetary conditions could support a gradual recovery, lifting annualised total returns towards 7% over the next three years.

2. The UK economy

- **Despite escalating geopolitical tensions and rising energy costs, the IMF increased its forecasts for global GDP growth in 2026 and in 2027, while UK GDP growth has proved more resilient than expected this year, supported by AI-related investment and technology services.**
- **The outlook for UK growth next year is much more uncertain, with the Office for Budget Responsibility (OBR) cutting it's outlook for next year from 1.5% GDP growth to 1%.**

The conflict in the Persian Gulf has expanded geographically and intensified concerns over energy security, inflation and international trade. Hostilities centred on the Persian Gulf disrupting shipping through the Strait of Hormuz, have now spread westwards across the Arabian Peninsula to the Red Sea and the strategically important Bab al-Mandab Strait, threatening a second major route for international oil shipments.

Shipping movements have collapsed since the outbreak of war in February. According to Reuters, approximately 125 large commercial vessels per day passed through the Strait of Hormuz before the conflict. In early October less than ten vessels passed through each day. Based on European security sources, the FT has reported that 24 ships were hit in the first two weeks of October. Attacks by Yemen's Iranian-backed Houthis pose a further threat to Saudi infrastructure undermining Saudi Arabia's efforts to circumvent the Strait of Hormuz by transporting crude through its East-West pipeline to Yanbu.

Brent crude prices increased from approximately $84 per barrel in July to $125 in the first days of October. In the UK the forecourt price of diesel is over £2.00 per litre. Central Banks have reacted to continued inflationary pressures by considering increases in interest rates. In addition, higher inflation is one of a number of factors behind a spike in the yield on sovereign debt.

Global outlook

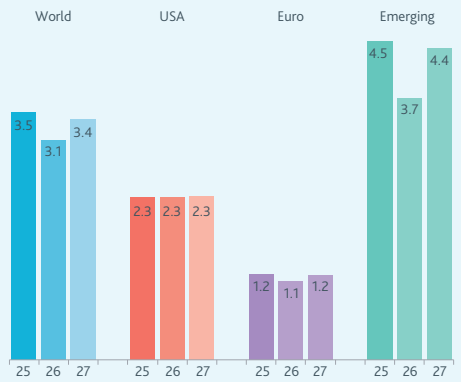
In October's **World Economic Outlook** (WEO) **the IMF** improved its 2026 global growth forecast by 0.1% to 3.1% and maintained its 3.4% forecast for 2027 despite persistent disruption to energy markets. Factors underlying this resilience include the rerouting of energy supplies; increased energy production in other countries; inventory drawdowns; switching to renewable energy; and higher energy efficiency. Secondly, the AI investment boom has driven global activity and supported international trade. Expectations for global headline inflation in 2026 remain at 4.7% but the outlook for 2027 has increased from 3.9% to 4.1%.

Domestic UK outlook

The UK economy held up better than expected during the summer, as the latest data indicates that year-on-year output has grown for the last seven months. The latest monthly estimate of GDP reports that real GDP is estimated to have grown by 0.1% in August 2026, following growth of 0.4% in both June and July. In the three months to August, GDP is estimated to have grown by 0.7% compared to the previous three-month period, following growth of 0.7% in the three months to May. Over the longer term, GDP is estimated to have grown by 1.8% in the 12 months to August, compared with the same period twelve months ago. Services grew by 2.2% and production output grew 0.8%. But construction shrank by -1.6%.

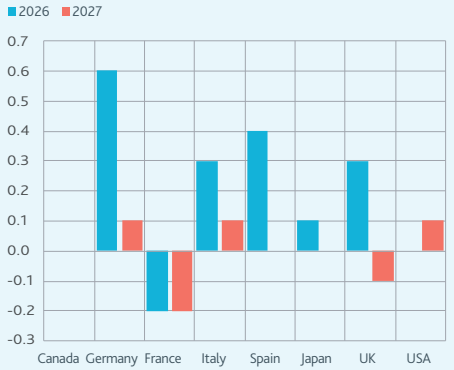
The largest contribution to quarterly growth came from professional, scientific and technical activities, and information and communication. Within these sectors, the specific industries include computer programming (e.g. Sage and Accenture, scientific R&D (e.g. AstraZeneca and GSK) and information services (e.g. Bloomberg and Dun & Bradstreet). Strong growth from these sectors reflect the contribution of AI-related expenditure and technology services. It is estimated that AI-related spending may

GDP forecasts by region, by year (%)



Source: IMF, Oct 2026

Revisions to GDP forecasts (Jun v Oct) (%)



Source: IMF, Oct 2026

have accounted for as much as one-third of economic growth during the first seven months of the year. Although the expansion of technology-related activities offers considerable potential for future productivity gains, its immediate benefits remain concentrated in a relatively narrow range of industries. With construction output contracting and other sectors struggling, headline GDP growth does not as yet signal a broad-based recovery.

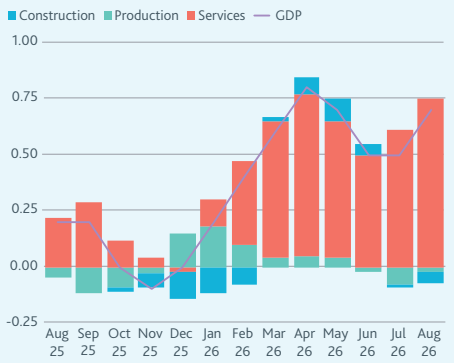
Stronger economic growth has had a mixed impact on jobs. The latest labour market figures released by ONS indicate that unemployment fell to 4.7% in the three months to August, from 4.9% when many economists were expecting a rise to 5%. The figures also showed that the number of payrolled employees rose by 13,000 between August and September, to 30.3m. However, job vacancies fell by 21,000 to 691,000 in the three months to September, the lowest since 2021 during the Covid pandemic. One possibility is that AI is driving productivity improvements. Barclays recently announced it is cutting 5,000 jobs, largely from support staff and developer roles as the bank increases its investment in technology.

Business surveys suggest that despite geopolitical uncertainty and a rising cost base the UK economy will continue to expand modestly during the remainder of the year. Growth, however, will remain uneven, with resilient technology-related services offsetting subdued activity elsewhere. October's **S&P Global UK Composite PMI** indicates that private-sector activity continued to expand in September, although the pace of growth moderated. Growth slowed in the services sector, while manufacturing activity remained subdued despite some improvement. Nevertheless, technology-related services remained resilient, supported by investment in digital transformation and artificial intelligence. Overall, the survey suggests that UK economic growth remained modest during the third quarter, with activity increasingly dependent on a relatively narrow range of expanding industries rather than a broad-based recovery.

At its September meeting, the Monetary Policy Committee (MPC) noted that the

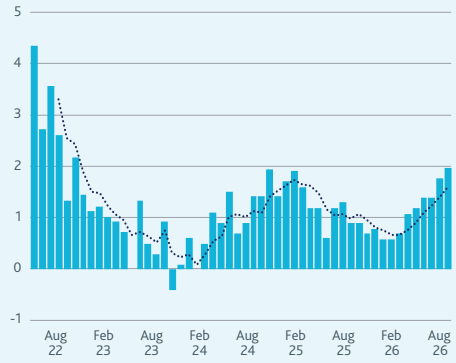
UK economy had performed better than expected and the IMF revised its forecasts for UK economic growth upwards by 0.5% to 1.3% citing the benefits from AI investment and related business expansion. However, a cautious Economic and Fiscal Outlook presented by the OBR contemporaneously with October's budget downgraded its forecasts of GDP growth from 1.6% to 1.0% for 2027. Household disposable income is expected to fall by 0.6% next year.

GVA% (3 month on 3 month growth)



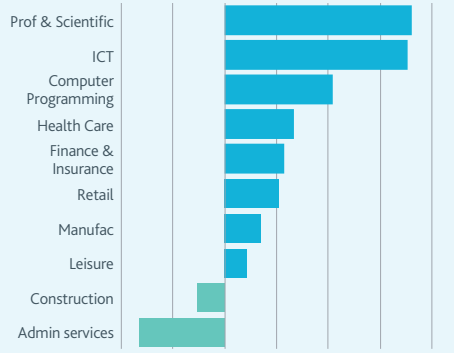
Source: ONS, Oct 2026

UK economic growth y-on-y



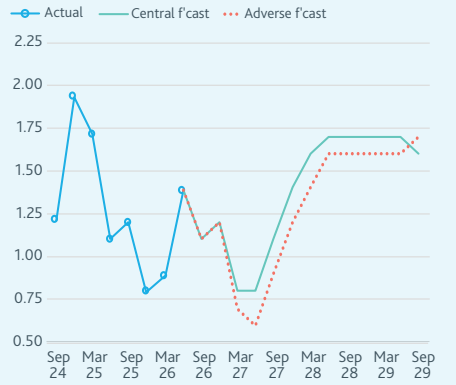
Source: ONS, Oct 2026

Weighted contribution to GVA (12m to June 2026)



Source: ONS, Oct 2026

GDP index and July's MPC forecasts



Source: ONS & Bank of England, July 2026

3. Inflation and prices

- **UK inflationary pressures have intensified, driven principally by rising energy and fuel costs, while increases in core inflation, services prices and wage growth suggest that underlying domestic price pressures remain persistent despite subdued consumer confidence and limited real earnings growth.**
- **The Bank of England is increasingly adopting a more cautious stance, with growing concerns that sustained increases in energy prices could generate second-round inflationary effects, raising the prospect of renewed monetary tightening despite continuing weaknesses in parts of the economy.**

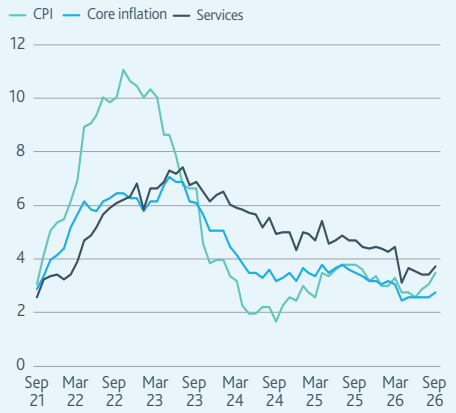
The latest CPI numbers indicate that 12-month inflation rose to 3.5% in September from 3.1% the previous month and from 2.6% in June. This is the highest rate since October 2025. Transport, particularly motor fuels, made the largest upward contribution to the monthly and annual change in CPI rates as the price of diesel at the pumps rose to £2.00 per litre. The leisure sector made the largest downward contribution as restaurants and hotels cut their prices in an attempt to attract customers with squeezed household budgets. CPI only measures direct consumer goods, services, and private rental costs but does not measure increased mortgage and home ownership costs. But with the price of oil continuing above $100 per barrel and spiking higher, the upward pressure on prices will continue.

Core inflation excluding energy, food, alcohol and tobacco has also risen to 2.8% in September from 2.6% in June. Although this remains above the 2.1% average registered between the Global Financial Crisis (GFC) and the pandemic, it is 60 bps below the level reached in October 2025 when CPI was last above the current level. Service sector inflation increased to 3.7% y-on-y in September from 3.6% in June and 4.5% in October 2025.

Annual wage growth excluding bonuses increased to 3.7% in the three months to August, compared to 3.4% in the three months to May. On a real basis, average pay increased by 0.3% in the year to August slightly easing the cost-of-living crisis. However, PwC's autumn Consumer Sentiment Survey shows that 85% of consumers worry about everyday cost-of-living staples, particularly energy and fuel prices.

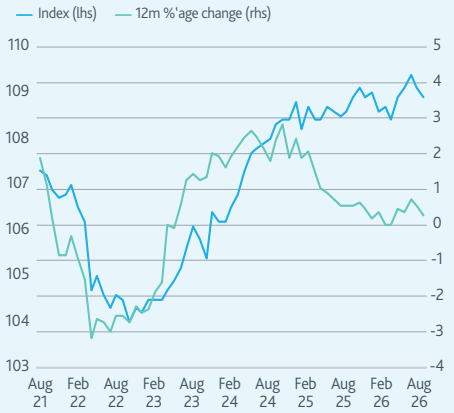
At its September meeting, the MPC expressed growing concern about the inflation outlook following further increases in global energy prices and revised its near-term inflation expectations upwards. CPI inflation of approximately 3.75% is now expected in Q4 2026, rising to slightly above 4% in early 2027.

CPI inflation (%pa)



Source: ONS, Oct 2026

Real pay index, sa (May 2005=100)

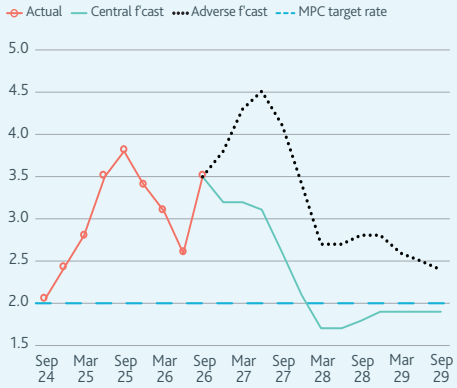


Source: ONS, Oct 2026

Although underlying domestic inflationary pressures continued to ease, the Committee warned that higher energy costs could increasingly feed through into food prices, business costs and wage settlements.

The MPC judged that the risks to inflation were firmly tilted to the upside. The OBR forecasts for 2027 have now been revised up to 3.4% from 2.0%.

Annual CPI and July's MPC forecasts



Source: ONS & Bank of England, July2026

4. Stock markets, interest rates & asset yields

- **Global equity markets delivered mixed performances in Q3, with US technology stocks outperforming amid continued enthusiasm for artificial intelligence, while Asian and European markets weakened as geopolitical uncertainty, persistent inflation, rising bond yields and concerns over elevated valuations weighed on sentiment. UK equities remained relatively resilient, supported by energy and commodity stocks.**
- **UK REIT share prices weakened in Q3 as rising gilt yields and expectations of higher borrowing costs weighed on investor sentiment, despite resilient occupational markets, strong leasing activity and continued rental growth across prime retail, industrial, logistics and office assets, with investment performance increasingly dependent on income growth and active asset management.**

Global and US markets

Global equity markets delivered mixed returns in Q3 2026, reflecting geopolitical tensions, persistent inflationary pressures and higher energy prices arising from continued hostilities between Iran and the USA. Sharply rising bond yields have added to the uncertainty. In Q3 the MSCI World Index gained 1.9% in USD terms, supported by US technology stocks and continued enthusiasm for artificial intelligence and digital infrastructure.

In the US, robust economic data and accelerating business activity underpinned strong performance from equity markets, with the NASDAQ gaining 3.7% and S&P 500 rising 2.9%. However, performance varied considerably and the Dow Jones declined 2.0%, illustrating the continued narrow focus on AI and "Tech". Microsoft, Meta, Apple and Nvidia delivered strong growth in the quarter while Tesla and Alphabet fell back. Following the successful flotation of SpaceX in June which raised approximately $86 billion and valued the business at around $1.8 trillion, its share price fell 11.7% during Q3.

Asian equities weakened in the third quarter. Following strong gains in Q2 Japan's Nikkei declined 4.7% as elevated valuations prompted profit-taking. South Korea's KOSPI also came under pressure, with semiconductor giants Samsung Electronics and SK Hynix particularly vulnerable to concerns over stretched valuations and AI investment sustainability.

European and UK markets

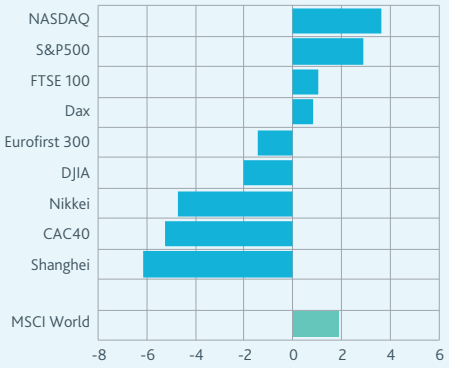
Although Eurozone GDP growth rose by 0.6% q-on-q in Q2, European equities weakened in Q3, with the Eurofirst 300 declining 1.5% and France's CAC 40 falling 5.2%, as the ECB raised interest rates by 25 bps in September. The UK's FTSE 100 gained 1.0% in Q3, supported by energy and mining stocks, including BP (+17.6%) and Glencore (+7.0%).

MSCI World index in 2026



Source: iShares, Oct 2026

World stock markets in Q3 2026 (%'age growth)

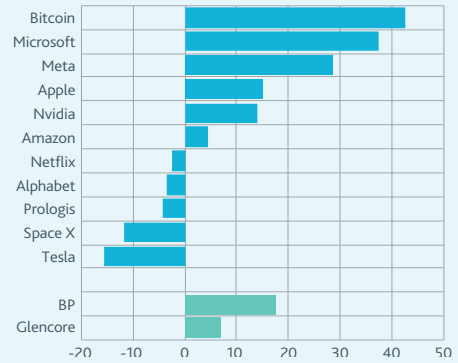


Source: Yahoo Finance, Oct 2026

UK REITs

The FTSE REIT index once again fell back as investors contemplated the impact of higher risk-free rates on valuations and the likelihood of increased borrowing costs with at least one, if not two, interest rate rises anticipated before the end of the year. In Q3 real estate equity prices fell by -2.6% having risen by 15.8% in Q2. The dividend yield on the REIT index increased from 5.2% to 5.4%.

Tech & other selected stocks in Q3 2026 (%'age growth)



Source: Yahoo Finance, Oct 2026

Trading updates and interim results published by major UK REITs during Q3 2026 generally highlighted durable occupational markets. Strong leasing activity and rental growth supported prime retail, industrial and logistics, and high-quality office assets. However, investment valuations remained sensitive to upward pressure in property yields. Performance remained driven by rental growth and active asset management rather than capital appreciation.

Shaftesbury Capital reported strong leasing activity in its July interim results across its portfolio concentrated in London's principal West End retail and entertainment destinations. The company completed 226 leasing transactions, with rents agreed 18% above previous passing rents and 5% ahead of December 2025 MRVs. Portfolio valuations rose 3.4%. The results reflected sustained occupier demand for retail and hospitality accommodation in London's principal shopping and leisure destinations supported by increasing footfall.

SEGRO's £14 billion acquisition by US logistics property group Prologis, announced in August 2026 and approved by shareholders in September, is expected to complete during the first half of 2027, subject to regulatory clearance and court approval. In the meantime, it reported improving occupational demand across its industrial and logistics portfolio in its July interim results. Like-for-like net rental income increased 5.3%. UK Urban industrial MRV's grew by 1.7% and Big-box logistics 5.2% in H1. SEGRO also reported a 44% uplift on UK rent reviews and renewals. However, portfolio valuations declined 1.2%, as investment yields came under pressure.

SEGRO secured £24 million of new development pre-lettings during H1 2026, including approximately 397,000 sq. ft at SEGRO Park Coventry reflecting continued strong demand for modern logistics accommodation. The company also expanded its strategic data centre development pipeline. Its UK data centre development pipeline would require approximately 0.77 gigavolt-amperes (GVA) to operate. A typical mid-sized UK town with a population of 100,000–150,000 people might have a peak electricity demand of approximately 0.1–0.2 GVA.

Trading updates from **British Land** and **Land Securities** highlighted continued rental growth across prime London offices, Retail Parks and Shopping Centres. British Land reported a 1.5% increase in portfolio valuations during the six months to September 2026, supported by 3.0% growth in MRVs. Its London office campuses including Broadgate, EC2 and Regent's Place, NW1 recorded MRV growth of 3.9% and capital appreciation of 1.6%, while the Retail Park portfolio with assets such as Teesside Park, Fort Kinnaird and Glasgow Fort achieved rental growth of 2.7% and valuation gains of 2.4%.

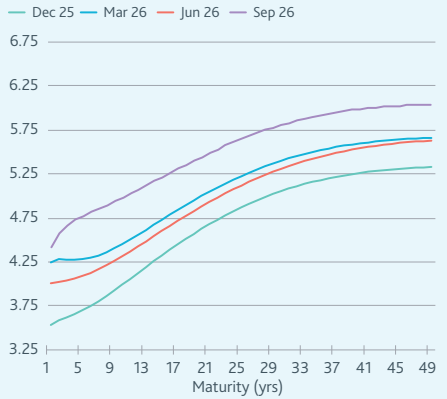
Land Securities' results for the year to March 2026 similarly showed strong rental growth, with MRVs from its office portfolio including New Street Square, EC4 and Cardinal Place and Nova

UK Reit price movement in Q3 2026 (%'age growth)



Source: Yahoo Finance, Oct 2026

Gilt yield curve (%)



Source: Bank of England, Oct 2026

UK gilt yields (%)



Source: Bank of England, Oct 2026

10-yr UK gilt yield



Source: Bank of England, Oct 2026

in Victoria SW1, increasing 7.1%. MRV's across its portfolio of regional shopping centres such as Bluewater, Liverpool ONE and Trinity Leeds rose 5.8%. However, office capital values declined marginally, while retail valuations increased 4.6%, highlighting the contrasting investment performance of the two sectors.

Yields and interest rates

In Q3 the yield on UK gilts jumped by 58 bps for shorter maturities and 54 bps for ten year and longer maturities. The yield on the 5-15 year gilt index softened by 60 bps in the second quarter to 5.37%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q3 of -3.00%. Over the last 12 months, the gilt index has provided a total return of 0.14% as yields have increased by 72 bps since September 2025. Yields on this index were last at this level in 1998. UK 10-year gilts are their highest level since 2007.

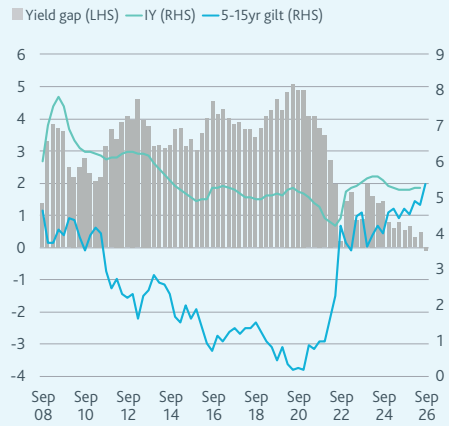
The recent dramatic fall in the price of sovereign debt has been a common theme across developed markets reflecting a degree of synchronicity with US markets. Specifically, for the UK it has been attributed to increased interest rate expectations in the shorter term; and in the longer term to heightened inflationary concerns, the national accounts, quantitative tightening and the movement from defined benefit to defined contribution pension schemes.

Crude oil prices are highly cyclical. Although the oil and gas crisis triggered by the blockade of the Strait of Hormuz is "more serious than the ones in 1973, 1979 and 2022 together", according to the head of the International Energy Agency, oil prices have been higher in the recent past. In 2008 the inflation adjusted price surpassed $200 per barrel and in 1980 and again in 2011 a barrel of oil was priced at $170. The latter two episodes were triggered by the Iran-Iraq War and the Arab Spring.

In September the MPC estimated that quantitative tightening had contributed just 20–30 basis points to the 200-basis-point increase in long-term gilt term premia since February 2022 but nevertheless announced a longer-term programme to unwind its remaining monetary policy gilt holdings by 2034, easing the impact on gilt markets. The MPC also highlighted structural changes in institutional demand for gilts, particularly from pension funds. The findings suggest that longer-term borrowing costs could remain elevated even if Bank Rate declines.

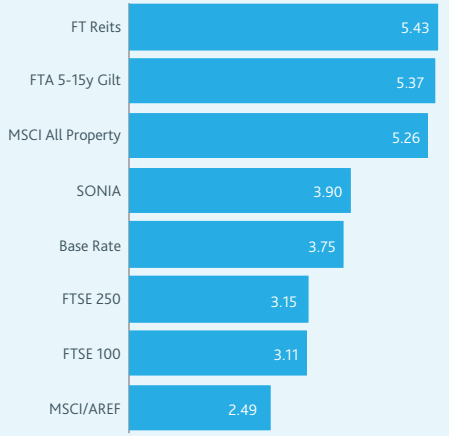
The minutes from September's MPC meeting suggest that there is an increasingly difficult trade-off between unexpectedly resilient economic activity and renewed inflationary pressures on one side and squeezed household real incomes, weaker consumption and increased business costs on the other. Although there was no change in the 6-3 majority that previously favoured maintaining Base Rate at 3.75% in July, the Committee's assessment had become more cautious, with the prospect of further monetary tightening dependent on the persistence of energy price increases and their transmission into domestic wages and prices.

Property IY – Gilt yield gap (%)



Source: MSCI & Bank of England, Oct 2026

UK asset yields Q3 2026 (%)



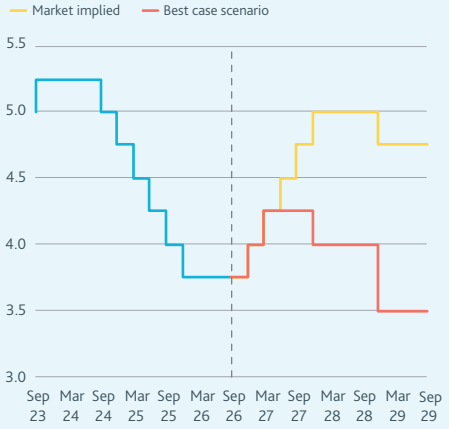
Source: Yahoo Finance & MSCI, Oct 2026

The next meeting is scheduled for 5th November when it is anticipated that there will be a 25bp increase in Base Rate to 4.00%.

The markets are now pricing in 5 rate rises, anticipating rates peaking at 5.00% in late 2027/early 2028. However, the Bank of England has cautioned against interpreting this as evidence that investors necessarily anticipate these substantial increases in interest rates. Much of the upward movement reflects higher risk premia.

The Treasury's September survey of Forecasts for the UK Economy indicates that Bank Rate will be held at 3.75% in 2026 with a small minority of economists anticipating a 25bp increase to 4.00% by year end. The 2027

MPC Bank Rate & forecast



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

consensus is more fragmented, ranging between 3.00% and 4.25% with a median forecast of 3.50%. Nevertheless, higher market-implied rates represent a tightening of financial conditions, influencing government bond yields and borrowing costs independently of actual monetary policy decisions.

The sustained increase in medium and long-term gilt yields has placed renewed upward pressure on UK commercial property investment yields, narrowing the premium available over government bonds. Higher borrowing costs and reduced relative returns have weakened investor demand, contributing to outward yield movements and declining capital values during the third quarter. However, the impact varies considerably between sectors; a more detailed analysis follows in the next section. With yields only likely to soften in the short term, support for current values will depend on rental growth and asset management.

On 28th October Chancellor John Healey announced a cautious Budget offering no increases in headline Income tax, National Insurance or Corporation tax rates. Funding for limited new spending commitments including household energy support, affordable housing, defence and AI investment will come from reallocating existing budgets rather than additional borrowing. The gilt market reacted in a neutral to mildly positive fashion as the 10-year gilt yield fell by 2 bps to 5.32%.



5. Commercial property market performance

- **UK commercial property returns weakened further in Q3 as falling capital values and outward yield movements offset continued rental growth, leaving income as the principal driver of performance. Rising gilt yields and borrowing costs increased pressure on valuations and widened the divergence between sectors, locations and asset quality.**

- **Retail continued to outperform, supported by attractive income yields and improving rental growth, while offices remained weakest overall despite resilient prime Central London assets benefiting from strong occupier demand. Industrial performance also weakened as rental growth slowed and yields continued to soften from the record levels reached earlier in the cycle.**

Performance slowed further in Q3 but the impact of falling capital values was mitigated by income and UK commercial real estate continued to deliver positive returns. Rental growth and improving occupancy provided support, while investment pricing remained sensitive to financing costs and bond yields. The result was a market with substantial differences between sectors, locations and asset quality.

Risk free rates rose by 60 bps in Q3, while the All Property initial yield hardened slightly, albeit by less than 1 bp. Consequently, the property initial / gilt yield gap has now reversed and the yield on the 5-15 year gilt index now stands at a premium to the All Property initial yield reinforcing concerns over future downward adjustments to pricing levels remain.

All Property total returns eased to 1.1% in Q3 from 1.2% in Q2. Capital values fell by -0.3%, leaving income as the principal source of return. Market rental value (MRV) growth was 0.7% and the equivalent-yield impact, which measures the change in value caused by movements in the equivalent yield, was -0.7%.

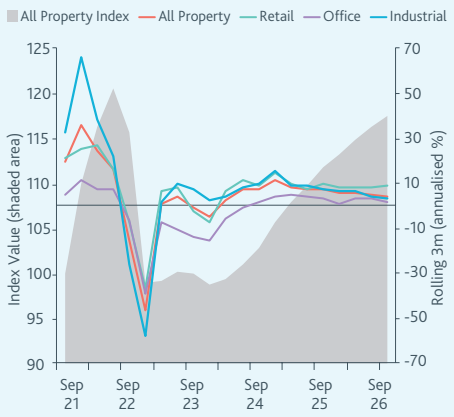
All Property total returns decreased to 5.2% y-on-y from 5.9% in the year to June and in the year to date have further decreased to an annualised rate of 5.0%. Capital values fell by -0.4% and Income provided 5.7%. MRV growth was 3.1% and equivalent yield impact -2.4%.

Retail was the strongest performing sector in Q3. Following a prolonged structural adjustment and repricing, most retail segments are now benefiting from more sustainable capital valuations and offering relatively attractive investment yields. The average net initial yield on Shopping Centres is 8.0%. Rack rented Retail Parks and Supermarkets provide an income of 6.0%. However, Central London retail initial yields are 3.5% requiring the support of strong MRV growth which is currently running at 7.1% year-on-year.

Offices remain the weakest sector. Total returns in Q3 were 0.5%. Capital values fell by -0.9% in the quarter and in the year to date have decreased at an annualised rate of -2.8%. These average numbers for the sector, however, conceal a pronounced split between prime and secondary assets; and between London and the rest of the country.

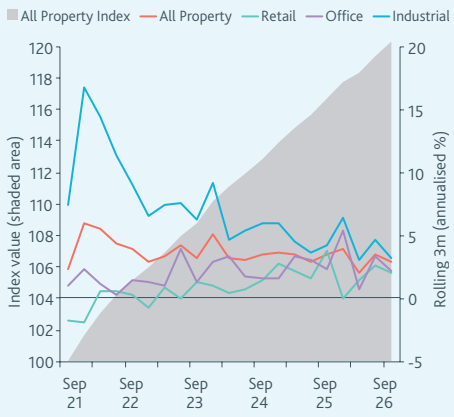
High-quality, well-located and energy-efficient buildings continue to benefit from strong occupational demand and a weak development pipeline of newly constructed office buildings. Core central London locations across the West End, Midtown and the City showed stronger performance. Prime Central London offices benefitted from capital value growth of 4.7% in the year to June and MRV growth of 8.4%. However,

Total returns (%) by sector



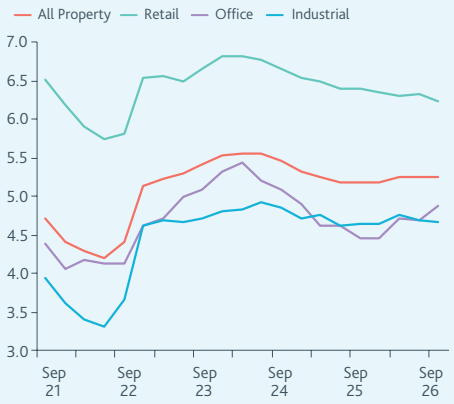
Source: MSCI, Oct 2026

MRV growth (%) by sector



Source: MSCI, Oct 2026

Initial yield (%) by sector



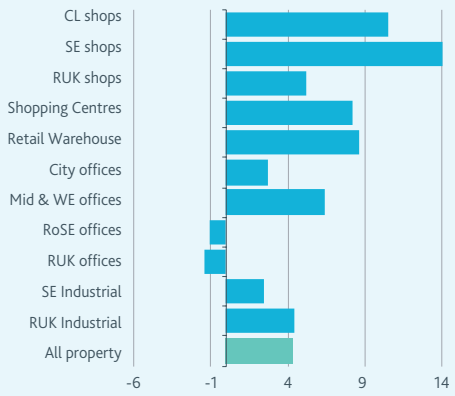
Source: MSCI, Oct 2026

secondary offices not only face softer occupational demand but also require significant capital spending on refurbishment.

The Industrial market has suffered a highly volatile last five years. Capital growth peaked at 37% y-on-y in 2022 supported by average annual MRV growth of 13% across the UK and 19% in London. All industrial MRV growth has since slowed to 4.3% y-on-y and capital growth is just 0.1% in the year to September. In 2022 industrial assets were priced off a yield of 3.5% but capital values in the sector are increasingly under pressure from the current interest rate environment. The average initial yield at the end of September had risen to 4.7%.

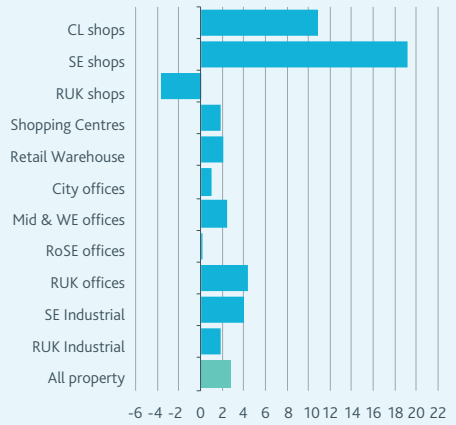
The tables included contain further performance data for UK commercial real estate in Q3 2026.

Total returns (%) by segment - Q3 2026 annualised



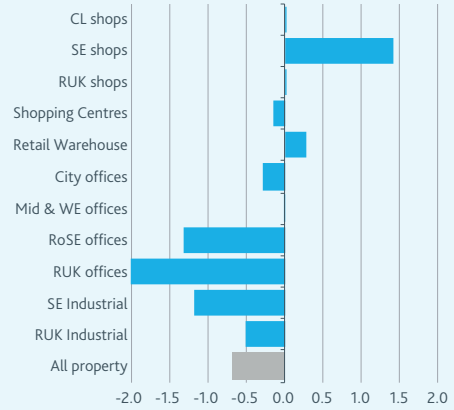
Source: MSCI, Oct 2026

MRV growth (%) by segment Q3 2026 annualised



Source: MSCI, Oct 2026

Yield impact (%) – Q3 2026



Source: MSCI, Oct 2026



Total returns (%)

	Sep	3m	6m	12m
All Property	0.3	1.1	2.3	5.2
Retail	0.8	2.1	4.2	8.4
Office	0.1	0.5	1.2	2.0
Industrial	0.2	0.8	1.8	5.1
Annualised				
All Property	3.6	4.3	4.6	5.2
Retail	9.5	8.6	8.5	8.4
Office	0.6	1.9	2.4	2.0
Industrial	2.3	3.1	3.6	5.1

Source: MSCI, Oct 2026

Capital growth (%)

	Sep	3m	6m	12m
All Property	-0.2	-0.3	-0.5	-0.4
Retail	0.2	0.5	0.9	1.5
Office	-0.4	-0.9	-1.5	-3.2
Industrial	-0.2	-0.5	-0.7	0.1
Annualised				
All Property	-2.0	-1.3	-1.0	-0.4
Retail	2.9	1.9	1.8	1.5
Office	-4.7	-3.4	-3.0	-3.2
Industrial	-2.8	-1.8	-1.3	0.1

Source: MSCI, Oct 2026

Income return (%)

	Sep	3m	6m	12m
All Property	0.5	1.4	2.8	5.7
Retail	0.5	1.6	3.3	6.7
Office	0.5	1.3	2.7	5.4
Industrial	0.4	1.2	2.5	4.9
Annualised				
All Property	5.8	5.7	5.7	5.7
Retail	6.4	6.6	6.6	6.7
Office	5.6	5.4	5.5	5.4
Industrial	5.2	5.0	5.0	4.9

Source: MSCI, Oct 2026

MRV growth (%)

	Sep	3m	6m	12m
All Property	0.3	0.7	1.6	3.1
Retail	0.3	0.5	1.1	1.5
Office	0.2	0.5	1.3	2.9
Industrial	0.5	0.8	1.9	4.3
Annualised				
All Property	4.1	2.9	3.2	3.1
Retail	3.4	2.0	2.3	1.5
Office	2.1	2.1	2.7	2.9
Industrial	6.2	3.2	3.9	4.3

Source: MSCI, Oct 2026

Net initial yield (%)

	Sep	3m	6m	12m
All Property	5.3	5.3	5.2	5.2
Retail	6.2	6.3	6.3	6.4
Office	4.9	4.7	4.7	4.5
Industrial	4.7	4.7	4.8	4.6

Source: MSCI, Oct 2026

12m performance by strategy relative to All Property average Q2 2026 (%)

	Low yield	High yield	High rent	Low rent	Long lease	Short lease
Shops	2.0	1.7	3.1	2.0	1.0	3.9
Shopping Centres	-2.7	6.0	4.9	-2.7	-0.8	2.9
Retail Warehouses	1.3	5.2	2.3	1.3	1.6	3.0
Central London offices	3.1	-10.6	4.2	3.1	3.4	-7.0
RoSe offices	-0.7	-13.5	-5.9	-0.7	2.4	-7.2
RUK offices	2.2	-10.0		2.2	2.7	-5.2
Industrials	-0.5	-0.1	-1.8	-0.5	0.1	0.0

Source: MSCI, Oct 2026

6. Investment in property

- **UK commercial property investment activity weakened further with transaction volumes declining and remaining substantially below historical averages, while institutional interest in alternative sectors strengthened, reflecting demand for diversified income and exposure to structural growth opportunities. There are indications of a recovery in Central London office investment supported by the early signs of renewed interest from overseas investors, with activity increasingly concentrated in fringe locations.**
- **Improvements in credit availability slowed, and domestic lending growth moderated as expectations for further loan expansion weakened, potentially constraining investment liquidity and transaction activity in coming quarters.**

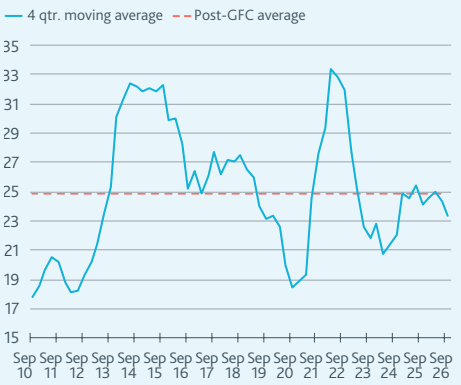
UK All Property transactions

Investment volumes[1] in Q2 2026 were reduced slightly compared to Q1 but were 12% below the level recorded in Q2 2025 and were -11% below the long run second quarter average. Offices made up 51% of investment volumes in Q2; retail represented a further 40% and industrials made up the remaining 9%. Preliminary estimates suggest that investment volumes in Q3 decreased by a further -20% quarter on quarter and were -29% below the long run average for the third quarter .

Current transaction levels are tracking 8% below the same point in 2025, although these figures could improve if the investment market benefits from the customary strong end to the year. MSCI have noted the increasing attraction of "Alternatives" to investors. Multifamily Build to Rent and Single Family Housing are gaining increasing traction in the institutional market reflecting the appeal of a diversified source of rental income and under-pinned by the long-term demand for housing in the UK. Investment in Data Centres, Senior Housing and Self-Storage is also trending higher. These sectors offer exposure to technological, demographic and structural demand, but bring distinct requirements, including power availability, development expertise and operational capability.

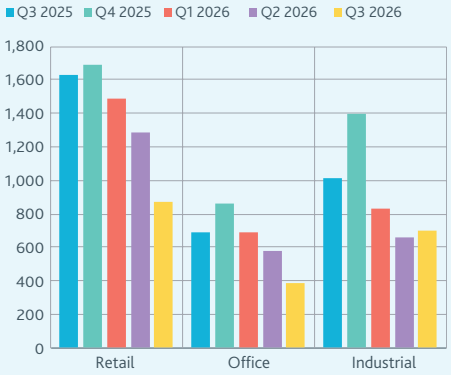
Geographically, London remains the leading destination for capital. In 2024 and 2025 36% of all capital was deployed in London. In the first three quarters of the current year, London has attracted 44% of all UK commercial real estate investment.

All property investment volumes (£bn)



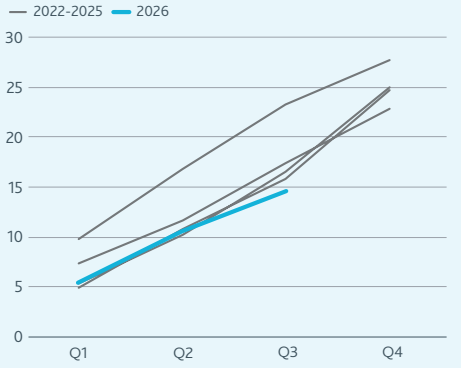
Source: CoStar, MSCI & APR, Oct 2026

UK investment volumes by quarter (£bn)

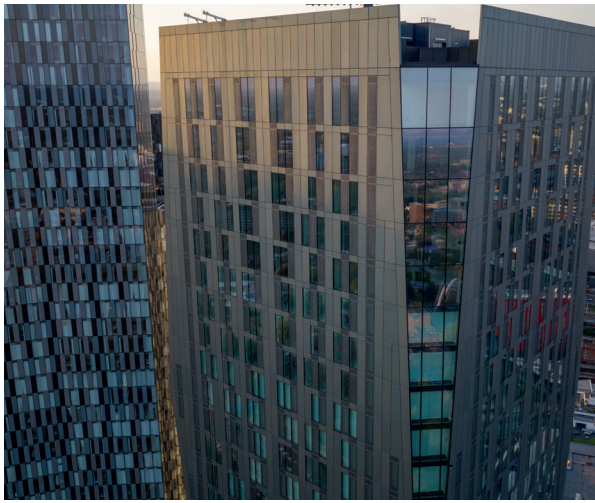


Source: CoStar, MSCI & APR, Oct 2026

Quarterly UK investment volumes 2022-2026 (£bn)



Source: CoStar, MSCI & APR, Oct 2026



[1] Investment volumes are the current value of investment transactions adjusted for capital growth.

Central London office transactions

Investment volumes in the UK's key Central London office market have been improving since mid-2024 but are 56% below peak levels achieved in 2015. Although the declining weight of foreign direct investment (FDI) into Central London offices has been a contributory factor, FDI in the first three quarters is responsible for 60% of capital deployed whereas in 2025 cross border capital underwrote 50% of transactions.

Central London office Investment volumes in Q2 2026 were 45% higher than Q1 but -22% below the long run second quarter average. Preliminary estimates for Q3 indicate that investment volumes decreased -30% quarter-on-quarter and were -45% below the long run average for the third quarter[2].

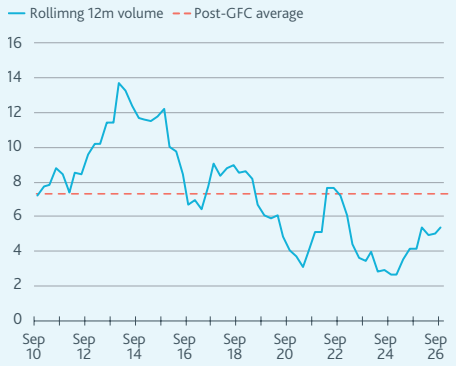
The City made up 11% of Q2 Central London office investment volumes in 11 transactions; Midtown and West End represented a further 25% in 26 transactions and City Fringe, Docklands and Southbank made up the remaining 63% in 20 transactions. Preliminary estimates for Q3 indicate that the Fringe markets were again the favoured destination and the City's share of investment fell to 6%.

Lending to the property sector

New lending to UK commercial real estate rose by 29% year-on-year to £28.7 billion in H1 2026, according to Bayes Business School. Much of the recent activity has been driven by the demand for refinancing rather than new transactional activity. During the year £33 billion of loans are scheduled to mature and borrowers expect interest rates to rise towards the end of the year. Lenders, including Banks, Debt Funds and Insurers, are increasingly keen to lend to the Logistics and Living sectors at the expense of prime offices.

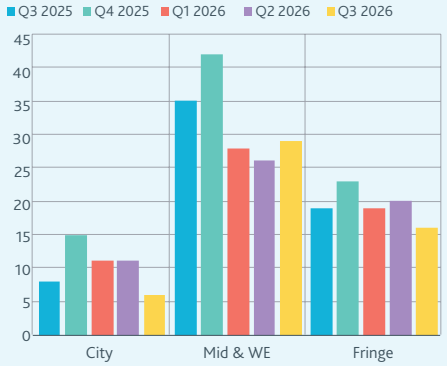
The Bank of England's October Credit Conditions Survey indicates that credit availability continued to improve in Q3, albeit more slowly than a year earlier, with little further improvement anticipated in Q4. Outstanding lending by UK banks and financial institutions to real estate businesses increased by 10.3% year-on-year to approximately £153 billion in August, although the pace of growth has moderated since March.

Central London office investment volumes (£bn)



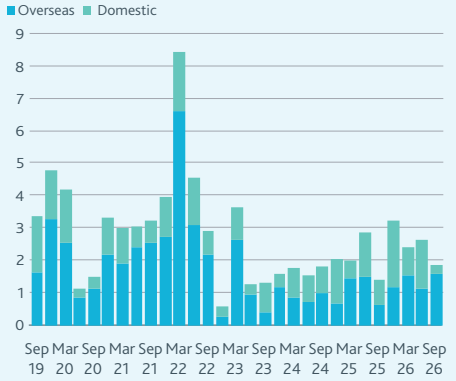
Source: CoStar, MSCI & APR, Oct 2026

No. of Central London office transactions by qtr.



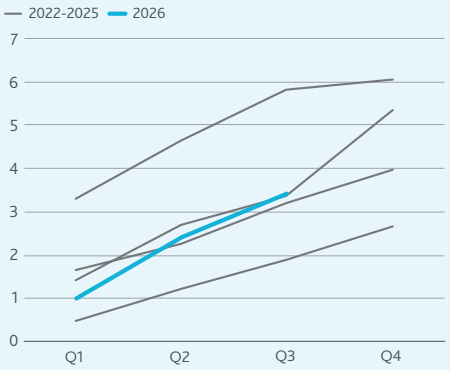
Source: CoStar, MSCI & APR, Oct 2026

Overseas investment in Central London offices (£bn)



Source: CoStar, MSCI & APR, Oct 2026

Quarterly CLO investment volumes 2022-26 (£bn)



Source: CoStar, MSCI & APR, Oct 2026

[2] The latest numbers for Q3 are likely to be revised in the coming months.

7. Outlook & house view

- **Consensus forecasts for UK commercial property market performance have weakened across near and medium-term horizons, with widening differences between forecasters reflecting growing economic uncertainty, while expectations increasingly favour higher-yielding retail assets over offices and industrials.**

- **Cluttons has downgraded its outlook for All Property total returns, anticipating further modest capital value declines supported by resilient rental income. Longer-term recovery prospects depend on easing geopolitical tensions, moderating inflation and improving monetary conditions, although a prolonged conflict presents significant downside risk.**

Consensus Forecasts

Forecasters' confidence in the outlook for UK commercial property in 2026 continues to weaken. August's Real Estate:UK (RE:UK) consensus forecasts for total returns in 2026 decreased to 5.0% from 5.4% in May. The consensus outlook for 2027 was also reduced to 7.0% from 7.6% and the five-year outlook has been trimmed by 0.4% from an annualised average of 7.2% to 6.8%.

Total return expectations for 2026 improved for Shops and Retail Parks. City offices and Industrials bore the largest cuts. Forecast performance for Industrials in 2026 has more than halved from 9.0% anticipated a year ago in August 2025 as analysts prefer value style assets offering a higher income return. Expectations for 2026 remain highest for Shopping Centres and Retail Warehouses.

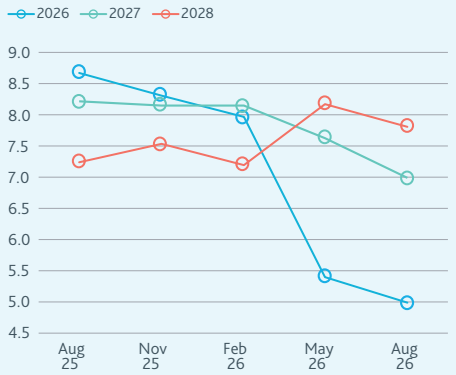
The range of forecasts for 2026 widened again in August, with the maximum prediction an optimistic 8.3% and the minimum decreasing to an equally unlikely -0.6%. The range of views widened to 8.9% in August from 5.8% in May, as the uncertain economic headwinds gather strength. The range of forecasts for 2027 has narrowed to 4.0% varying between 10.3% and 6.3%.

Cluttons' House View

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.

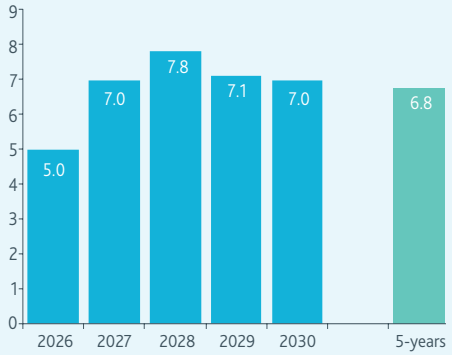
The economic and financial repercussions of the US and Israeli attacks on Iran show little sign of dissipating. The conflict has spread across the Arabian Peninsula and now threatens both the strategically important Bab al-Mandab Strait and Saudi Arabia's oil infrastructure. With oil prices remaining elevated, central banks have become

IPF Consensus forecast evolution (%)



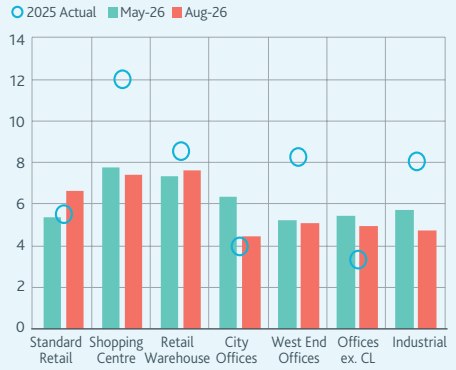
Source: RE:UK, Aug 2026

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



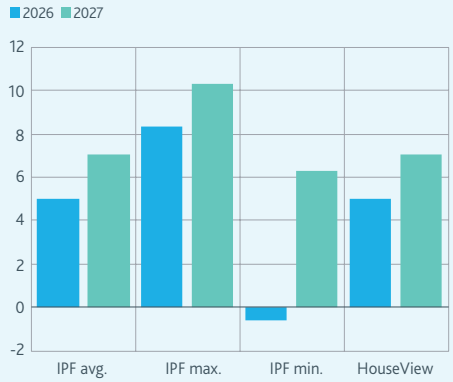
Source: RE:UK, Aug 2026

2026 total return forecasts by sector Aug 26 v May 26 (%)



Source: RE:UK, Aug 2026

UK commercial total return forecast range (%)



Source: IPF, APR & Cluttons, Aug & Oct 2026

increasingly concerned that second-round inflationary effects could become entrenched and appear less willing to look through what was initially regarded as a temporary supply-side shock. In the UK, financial markets are anticipating two imminent 25 basis point increases in Bank Rate. Sovereign bond yields have risen across developed economies, with the UK 10-year gilt yield increasing by 58 basis points in Q3 and 83 basis points over the first nine months of the year.

These developments are beginning to weigh more heavily on commercial property valuations. All Property capital growth has been negative for five consecutive months, while the adverse impact of equivalent yield movements month-on-month doubled to -0.4% in September, taking the cumulative effect to -2.0% in the year-to-date. Further outward yield movement appears likely in Q4 as higher government bond yields, rising borrowing costs and subdued investment activity place additional pressure on pricing. A weakening appetite for commercial property lending among domestic banks, potentially accompanied by tighter lending covenants, represents a further constraint on investment demand.

Nevertheless, a sharp correction in capital values is not our central expectation. Despite the 83 basis point increase in the 10-year gilt yield this year, the MSCI All Property initial yield has softened by only 9 basis points, implying a pass-through of approximately 11%. This contrasts sharply with the aftermath of the September 2022 Mini Budget, when a 124 basis point increase in gilt yields was followed by an 87 basis point outward movement in property yields over the subsequent three months, equivalent to a pass-through of 70%. Applying that past relationship to the current market would imply approximately 58 bps of property yield expansion, substantially more than has occurred.

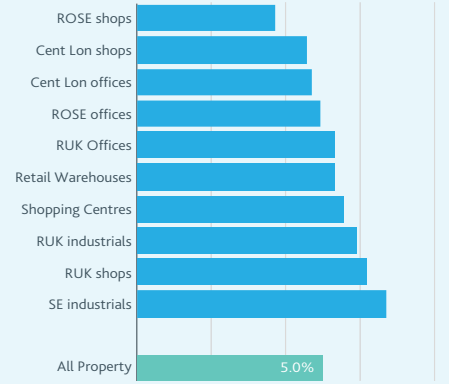
However, the comparison with 2022 is illustrative rather than predictive. The 2022 episode involved exceptional liquidity and financing pressures. The relatively limited repricing in 2026 may reflect greater resilience. Certainly, the recovery after 2023's correction has been lacklustre and it is hard to argue that UK commercial property is currently over-valued. Equally, the limited response so far may just indicate a delayed valuation response. That uncertainty strengthens the case for a cautious near-term forecast without necessarily anticipating a collapse in values.

We are therefore reducing our forecast for 2026 All Property total returns from 5% to a range of 4%–5%. The MSCI index currently indicates an annualised year-to-date return of 5.0%, but the annualised rate over the seven months following the outbreak of the conflict has moderated to 4.7%, suggesting that underlying momentum is weakening. Achieving a full-year return of just 4% would require a decline in All Property capital values of slightly more than 1% in Q4, equivalent to approximately 13 basis points of further yield expansion. While this cannot be ruled out, it would represent a marked acceleration in repricing compared with the first nine months of the year.

Of course, the usual warnings apply regarding threats to financial markets from continued geo-political instability. On the downside, we have seen little in the last quarter to change our view that the current US administration is unable to negotiate an end to the war that reinstates the status quo ex ante.

The upside view benefits from easing geopolitical tensions, moderating inflation and more supportive monetary conditions ushering in a gradual recovery in investment demand. A recovery in Capital values could lift annualised All Property total returns towards 7% over the next three years. Although the immediate outlook remains challenging, the combination of relatively resilient property income and the absence, so far, of widespread forced selling should help prevent the current deterioration in market conditions from developing into a more severe correction.

Cluttons house view – 2026 relative total returns (%)



Source: APR & Cluttons, Oct 2026



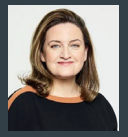
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