UK Real Estate Navigator

Q2 2026 | A quarterly review of the UK commercial real estate market | knightfrank.co.uk/research

The headlines

Our experts share the headlines from their UK CRE sectors this quarter

Economy	Despite rising geopolitical and energy-related risks, global growth has remained more resilient than expected, although persistent inflation is likely to keep monetary policy restrictive.
Capital markets	Geopolitical tensions weighed on investment activity in Q2, but largely delayed rather than derailed transactions, with the UK still ranking #1 in Europe and #2 globally for cross-border CRE capital YTD.
Offices	UK Cities: Office investment activity showed signs of recovery, supported by benchmark deals and improving pricing alignment. Regional leasing picked up, driven by professional services and TMT demand and increasing competition for prime space.
	South East: While investment volumes remain relatively low, rising stock levels are supporting liquidity. Leasing activity started 2026 strongly, driven by larger requirements and sustained demand for best-quality space.
	London: London take-up rebounded to 3.08m sq ft in Q2, while active requirements hit a record 14.32m sq ft, with AI-driven TMT demand accounting for more than a third of West End activity.
Industrial	The shortage of modern logistics space intensified in Q2 2026, with Grade A vacancy falling to just 4.4% nationally.
Retail	Retail Warehousing vacancy rates hit record lows (4.7%) raising some concerns about a potential supply crisis, but a welcome rebound in Shopping Centre investment, with a number of 'big ticket' deals - with more in the pipeline.
Data centres	The UK's AI ambitions are translating into real infrastructure demand, with 81MW of AI leasing activity recorded so far this year and more than 73GW of grid demand associated with data centre projects. Yet as regulators tighten connection requirements, future growth will be determined as much by deliverability as demand.
Healthcare	Healthcare transaction focus is becoming less one-sided, with sub-sectors such as adult specialist, private hospital and childcare generating interest.
Life sciences	UK science and innovation gained momentum in H1 2026, with life sciences venture capital reaching a record £3.06bn - up 65% YoY - and Golden Triangle leasing activity also achieving a record first half. While investment remains concentrated, supportive policy, regional devolution, improving sentiment and a substantial development pipeline point to continued confidence in the sector.

Economic update

Global and UK economy

CONTACT: NIK POTTER, KHADIJA HUSSAIN

Global economy

The high price of stability

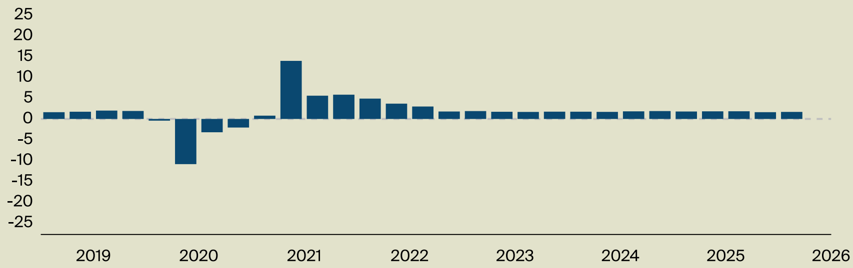
GLOBAL OUTLOOK: RESILIENT GROWTH FACES AN ENERGY-DRIVEN TEST

The global economy remains overshadowed by geopolitical uncertainty, with the unstable status of US-Iran negotiations and the continued disruption to shipping through the Strait of Hormuz posing the most significant risks to the outlook. While fears of a severe economic shock have moderated since earlier in the year, the possibility of prolonged skirmishes and ongoing energy supply disruption continues to cast a shadow over growth and inflation expectations. Even so, the global economy has proved more resilient than initially anticipated.

According to Oxford Economics, global GDP is forecast to expand by 2.5% in 2026, marginally stronger than recent projections but still well below pre-conflict expectations of 3.0%. Growth remains uneven across regions. The United States is expected to outperform most advanced economies, while emerging markets continue to offer the strongest medium-term growth prospects. The IMF's July update similarly highlighted an increasingly divergent global economy, with technology-led investment supporting activity in some regions while higher energy costs weigh on others.

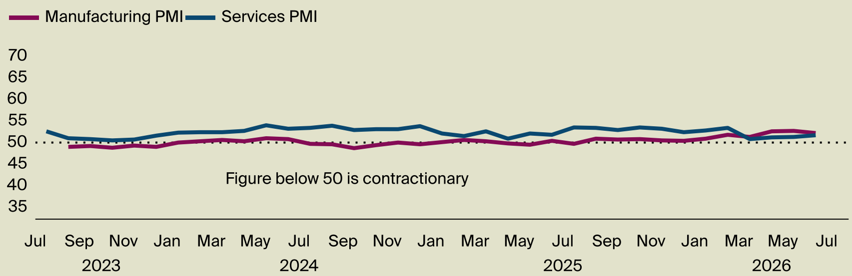
Inflation remains the principal area of concern. Oxford Economics currently forecasts global inflation of 4.5% this year, although risks are skewed to the upside. A prolonged period of elevated energy prices, potential diesel shortages and spillovers into fertiliser and food costs could all add further inflationary pressure. Reflecting these concerns, the IMF noted that global disinflation has stalled, with inflation expected to rise before easing more gradually. Central banks are therefore likely to remain cautious, keeping credit conditions restrictive and limiting the scope for near-term policy easing.

Gross Domestic Product
Quarterly OECD countries GDP growth, % change YoY, seasonally adjusted



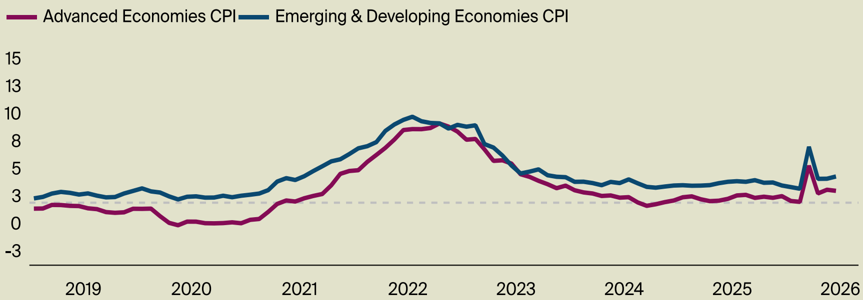
Source: Knight Frank Insight, Macrobond, OECD

Business Activity Index



Source: Knight Frank Insight, Macrobond, S&P Global /CIPS

Inflation
%



Source: Knight Frank Insight, Macrobond, World Bank

UK economy

Renewed geopolitical tensions challenge sentiment more than fundamentals

UK OUTLOOK: CONDITIONS REMAIN FIRMER THAN FEARED

The UK economy continued to navigate a challenging backdrop in Q2, with heightened geopolitical tensions in the Middle East fuelling energy market volatility and adding uncertainty to the inflation and interest rate outlook. Despite this, domestic conditions remained broadly stable. GDP returned to growth in May (+0.1%) following a modest contraction in April (-0.1%), while the IMF upgraded its 2026 UK growth forecast by +20bps to 1.0% in July.

Labour market conditions continued to soften, with unemployment rising to 4.9% in the three months to May and private sector wage growth slowing to 2.9% YoY, its weakest pace since October 2020. The easing in labour market pressures should support further progress on inflation. Against this backdrop, the base rate was held at 3.75% throughout Q2, and we expect policy rates to remain unchanged through the remainder of 2026.

PRIVATE SECTOR ACTIVITY RETURNS TO GROWTH

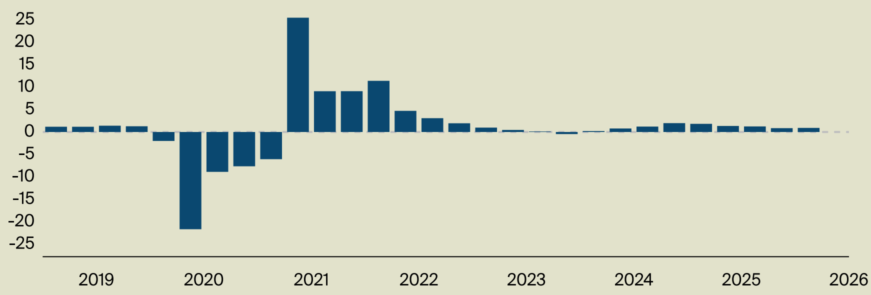
UK private sector activity returned to growth in July, with the Services PMI rebounding to 51.8 and Manufacturing PMI remaining in expansionary territory at 51.9.

SOFTER LABOUR MARKET SHOULD LIMIT INFLATION RISK

The inflation backdrop has also been more benign than expected. UK CPI inflation fell to 2.6% in June. Although the escalation in the Middle East briefly revived concerns about another energy-led inflation shock, current conditions remain materially less inflationary than those seen in 2022. Oxford Economics now expects UK CPI to peak at 3.5% in late 2026, before gradually easing back towards the BoE's 2% target during 2027.

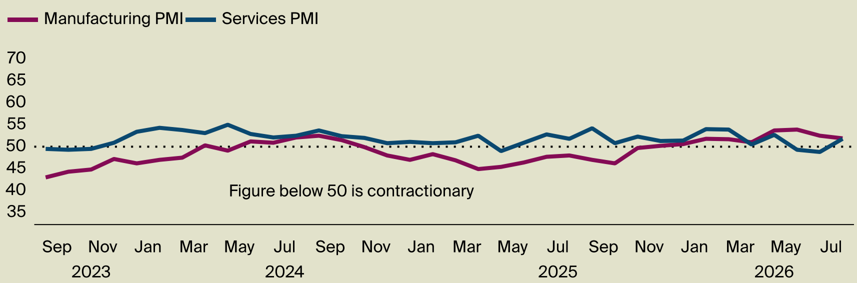
Gross Domestic Product

Quarterly UK GDP growth, % change YoY, constant prices, seasonally adjusted



Source: Knight Frank Insight, Macrobond, ONS

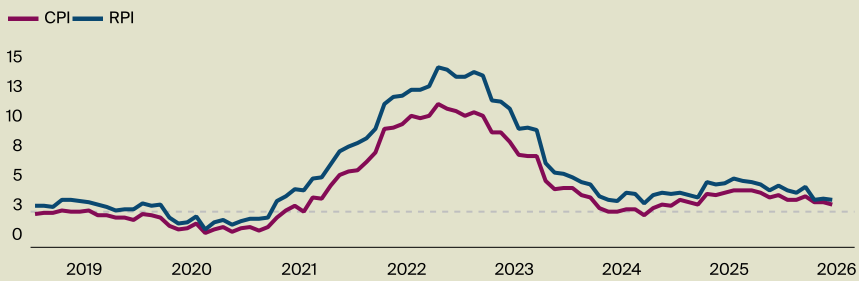
Business Activity Index



Source: Knight Frank Insight, Macrobond, S&P Global /CIPS

Inflation

%



Source: Knight Frank Insight, Macrobond, ONS

Capital markets

UK commercial real estate

CONTACT: NIK POTTER, KHADIJA HUSSAIN

Capital markets

Geopolitical tensions tempered Q2 activity, but delayed rather than derailed transactions, with the UK still ranking #1 in Europe and #2 globally for cross-border CRE capital YTD

Q2 2026: SELECTIVE SIGNS OF STRENGTH

Heightened geopolitical uncertainty stemming from the US-Iran conflict weighed on investment sentiment during Q2, contributing to increased market volatility and a more cautious approach to capital deployment across many real estate markets. Despite this, the UK remained a key destination for cross-border CRE capital, ranking first in Europe and second globally, behind only the US.

UK CRE investment totalled £8.3bn in Q2 2026, representing a softer quarter for the market. Volumes were down -13% on Q1 and -10% on Q2 2025. Offices led activity at £2.4bn, followed by Living (£2.2bn), Logistics (£1.5bn), Retail (£1.2bn) and Hotels (£0.4bn). Sector performance, however, remained mixed. Hotels and Living recorded the strongest YoY growth in Q2, with investment increasing by +47% and +29% respectively. Retail was the only sector to post quarterly growth, with volumes rising +9% on Q1.

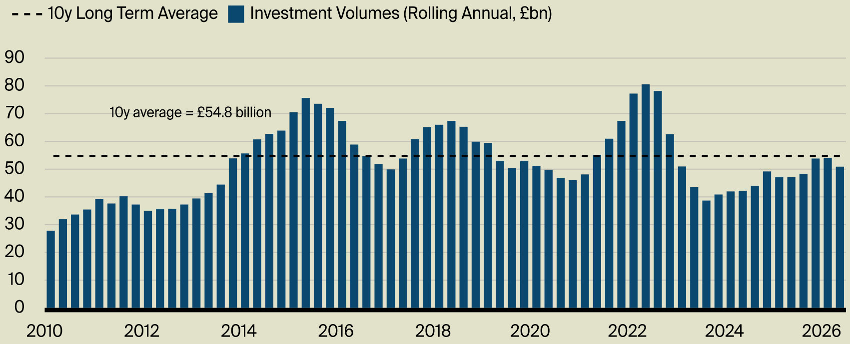
Cross-border investment totalled £4.0bn in Q2, down -5% on the previous quarter and accounting for 45% of total UK CRE volumes.

CAUTIOUS EXECUTION, IMPROVING FUNDAMENTALS

While uncertainty around swap rates, bond yields and the interest rate outlook continues to influence investment decisions, market activity is gradually gaining momentum. Transactions are progressing, albeit over longer timeframes, as investors seek greater clarity on pricing and financing conditions. Encouragingly, appetite remains strong across a range of sectors, and with swap rates moderating from recent highs, acquisition activity is expected to strengthen through the second half of the year as confidence in pricing and funding costs improves.

UK quarterly investment volumes

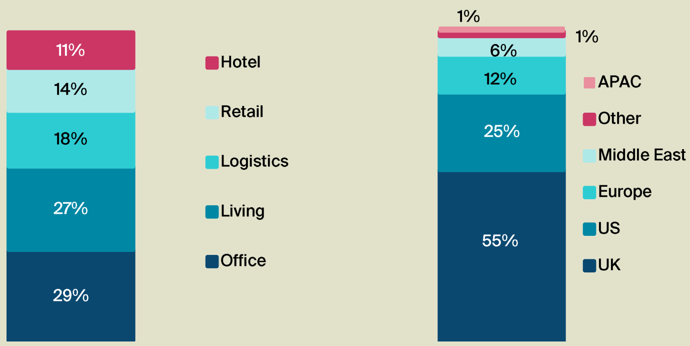
Quarterly investment volumes, rolling average



Source: Knight Frank Insight, RCA

Investment volume breakdown

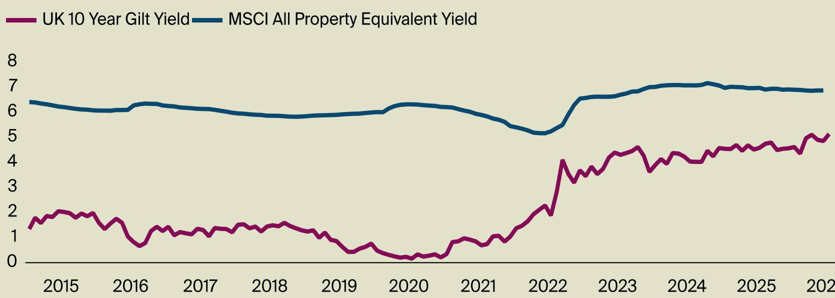
% of Q2 2026 volume



Source: Knight Frank Insight, RCA

Property equivalent yield and UK 10 year gilt yield

%



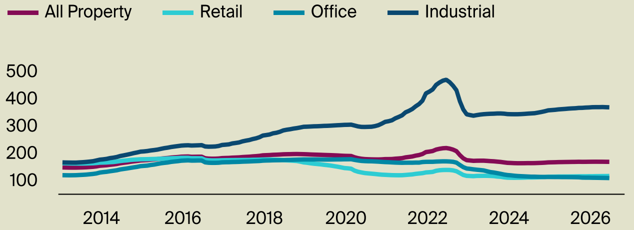
Source: Knight Frank Insight, Macrobond, MSCI

Capital markets

The IPF forecasts the Industrial sector to deliver the strongest capital and rental value growth in 2026

MSCI Capital Value Growth Index

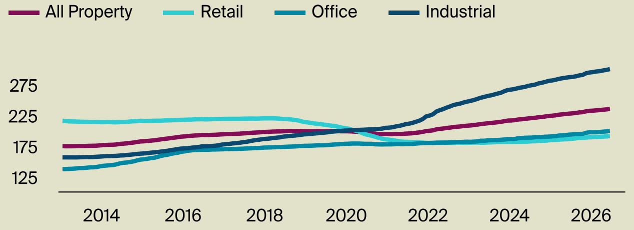
Dec 1986 = 100



Source: Knight Frank Insight, MSCI

MSCI Rental Value Growth Index

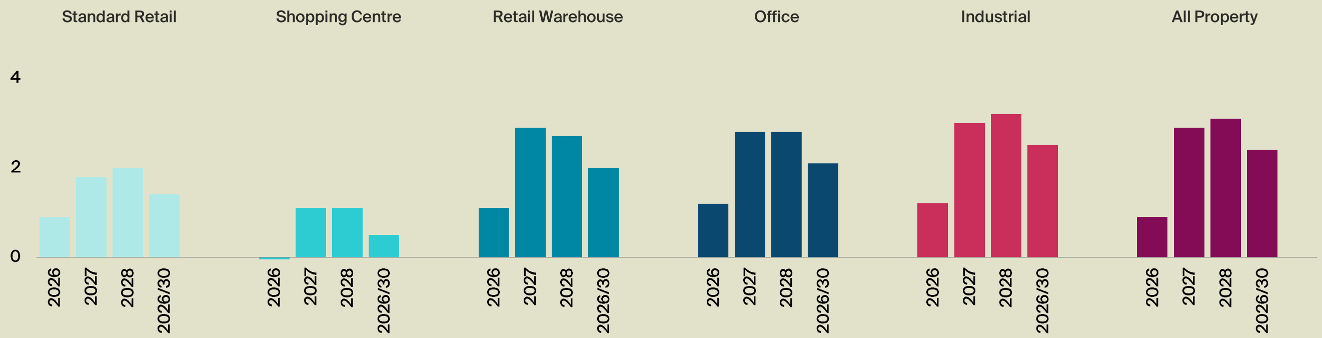
Dec 1986 = 100



Source: Knight Frank Insight, MSCI

IPF Consensus Capital Value Growth Forecast

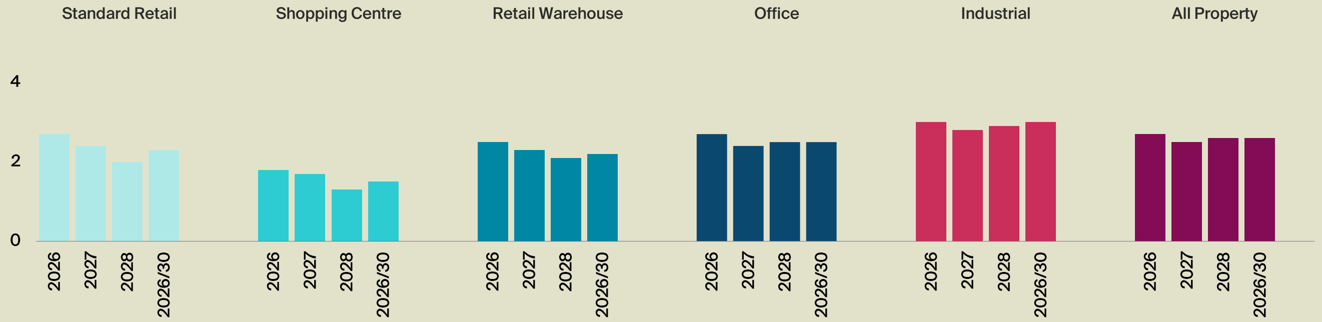
%, May 2026 forecast



Source: Knight Frank Insight, IPF

IPF Consensus Rental Value Growth Forecast

%, May 2026 forecast



Source: Knight Frank Insight, IPF

Offices

City & Southbank, West End, Docklands & Stratford, South East & UK Cities

CONTACT: LONDON – SHABAB QADAR, CHRIS DUNN SOUTH EAST & UK CITIES – DARREN MANSFIELD

City & Southbank offices

Investment activity falls after signs of a recovery

INVESTMENT RECOVERY STALLS

Investment turnover in the City & Southbank market fell by 57.4% to £0.4bn, which was 76.8% below the long-term average. This brought investment turnover over the last 12 months to £3.4bn, 48.3% below trend.

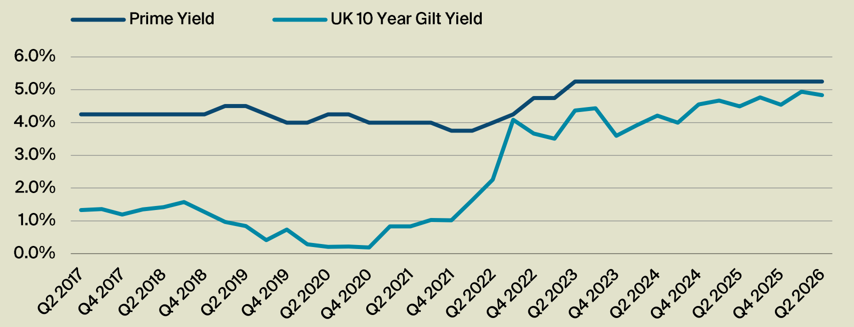
Activity for lot sizes exceeding £100m was down by 75.5% over the quarter at just £0.1bn, which was a significant driver behind the decline in overall volumes. Sub-£50m lot sizes, however, saw £0.2bn transacted, an increase of 17.5% over the quarter although this remains 31% below the long-term trend.

The total value of assets under offer fell by 47.0% to £0.5bn, which was 58.9% below the long-term trend. Almost 40% of the assets under offer are value-add, suggesting buyers remain willing to underwrite leasing, capex and repositioning risk in return for higher returns. Encouragingly, 26.7% of assets under offer are core assets, suggesting that activity could increase in the short to medium term.

Market pricing remains stable so far, with prime yields holding at 5.25%. This is set against a backdrop of geopolitical uncertainty that had seen an element of stability before the conflict in Iran resumed.

City & Southbank: Prime yield and UK 10 year gilt yield

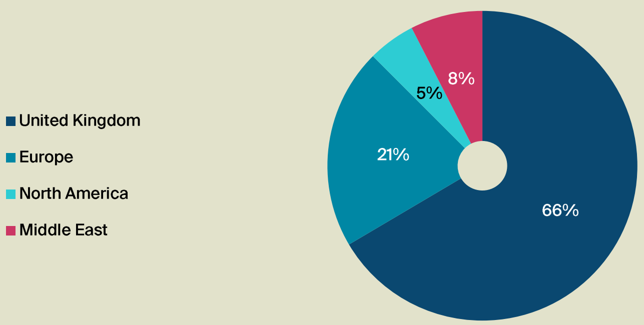
Q2 2026, % per annum



Source: Knight Frank Insight

City & Southbank: Investment volumes by nationality

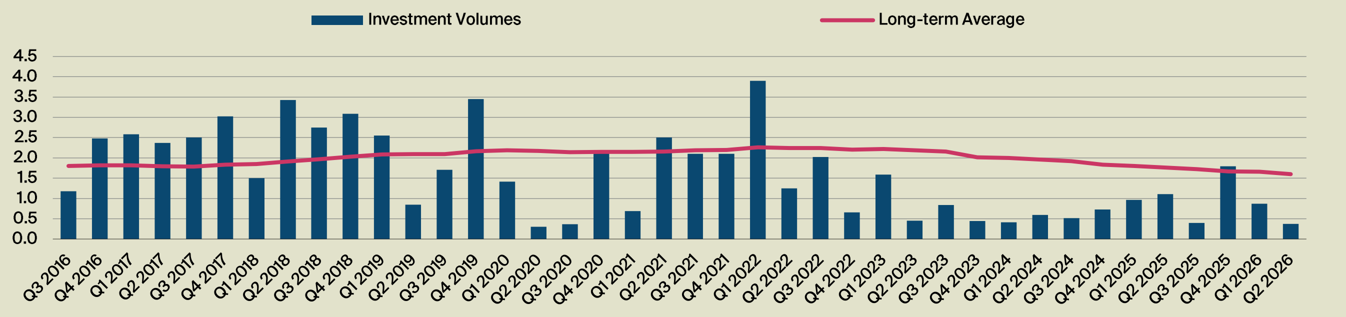
Q2 2026, % of total investment



Source: Knight Frank Insight

City & Southbank: Investment volumes relative to trend

£bn



Source: Knight Frank Insight

City & Southbank offices

Larger transactions yet to come

LEASING ACTIVITY EASES AS LARGE TRANSACTIONS ARE DELAYED

Take-up across the City & Southbank market fell by 9.9% to 1.4m sq ft in Q2, some 11.8% below trend. New/refurbished space continued to dominate, accounting for 77.5% of Q2 leasing activity. This was the first quarter since Q1 2024 where no 100,000 sq ft+ transactions were signed in the City & Southbank market, and only one transaction was completed between 80,000 and 100,000 sq ft.

Whilst larger deals were lacking, activity in the smaller size bands was comparatively buoyant. Sub-5,000 sq ft take-up was 60.1% ahead of trend, take-up for deals 5,000-10,000 sq ft was 56.8% ahead and 10,000-20,000 sq ft activity was 21.8% above average. This divergence in activity between size bands is not necessarily an indicator of any weakness in demand or sentiment, rather it highlights that larger transactions are taking longer to translate from viewings into transactions.

The City Core was home to four of the five largest deals signed in Q2: Natixis at Thames Court, EVC4 (88,449 sq ft), RPC at DSQ10, 10 Devonshire Square, EC2 (59,479 sq ft), CIC at 1-2 Broadgate, EC2 (39,644 sq ft) and OLIX at 200 Aldersgate Street, EC1 (30,647 sq ft).

FINANCIAL FIRMS BOOST LEASING ACTIVITY

The financial sector dominated take-up in Q2, accounting for 25.7% of activity across the City & Southbank market. The TMT sector accounted for a further 20.8% of volumes, whilst professional services accounted for an additional 19.9%.

Looking forward, momentum looks set to recover, with 2.4m sq ft of space under offer and 9.3m sq ft of active demand. This is a 29.6% uplift on the previous quarter and a 92.1% outperformance against the long-term trend. In terms of which sectors are driving that demand, the professional sector represents over 3.4m sq ft of live searches with the financial sector accounting for a further 3.3m sq ft.

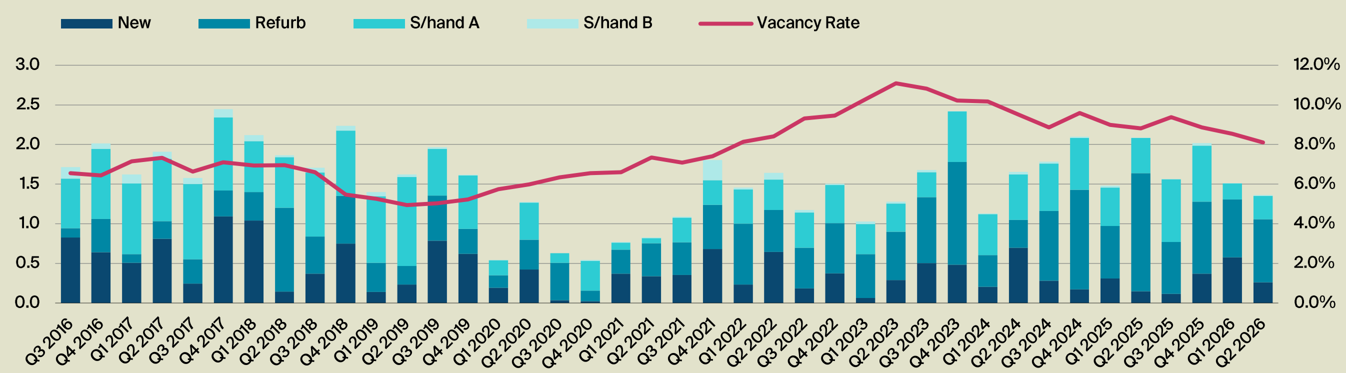
SUPPLY CONTINUES TO FALL

Availability fell by 4.9% over the quarter to 11.9m sq ft, although this remains 14.6% above the 10-year average level. This translated to a decline in the overall vacancy rate to 8.1%, just 40bps ahead of trend. The availability of new space continues to be restricted, with new vacancy falling to just 1.3% across the City & Southbank market. Development completions fell by 74.6% over the quarter to just under 0.4m sq ft, with 20.8% of this space already pre-let. The lack of speculative development completions suggests that the downward trend on new/refurb vacancy is set to continue.

PRIME RENTS UNCHANGED

Prime rents were held at the same level across the City & Southbank market. There are a number of prime buildings under offer heading into the second half of the year which will likely form further evidence for rental uplift in their respective submarkets.

City & Southbank: Take-up by quality and vacancy rate
M sq ft (LHS), % of stock (RHS)



Source: Knight Frank Insight

West End offices

Core assets in favour despite decline in turnover

CORE ASSETS REMAIN FAVOURED BY INVESTORS

Investment activity in the West End dropped by 14.0% over the quarter to £0.9bn, which was 23.4% below trend. West End investment accounted for 44.8% of total London turnover in Q2.

Larger lot sizes proved more popular with investors, with £100m+ assets accounting for 56.1% of Q2 investment activity, with three transactions above that threshold: Stirling Square, SW1 (£215m), 14 St George Street, W1 (£170m) and The Point, W2 (£125m).

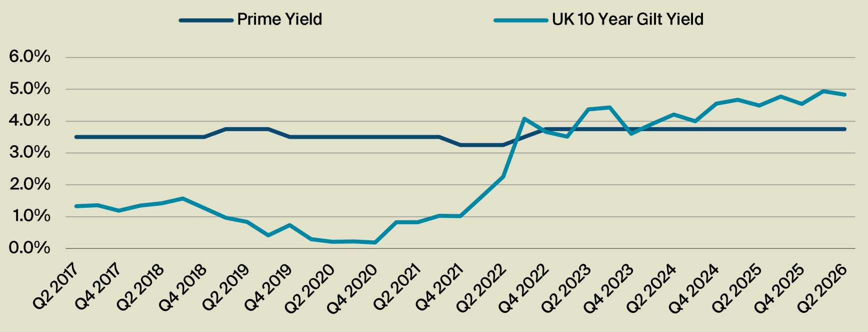
Unlike the trend seen in the City & Southbank market, core assets attracted the most investment in Q2, accounting for 64.9% of turnover. Interestingly, this focus on 'core' largely mirrored the location of the assets traded, with West End Core transactions contributing 65.9% of Q2 investment.

At the end of Q2, there was £1.8bn of assets under offer, up by nearly one-third since the end of March and 83.7% ahead of the long-term average.

The renewed geopolitical tension and interest rate uncertainty will continue to mean the West End market's defensive profile remaining attractive to global investors.

West End: Prime yield and UK 10 year gilt yield

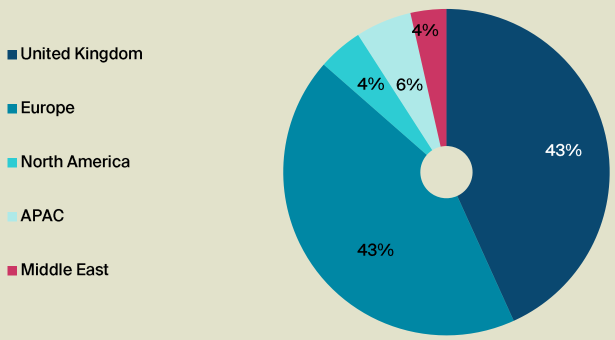
Q2 2026, % per annum



Source: Knight Frank Insight

West End: Investment volumes by nationality

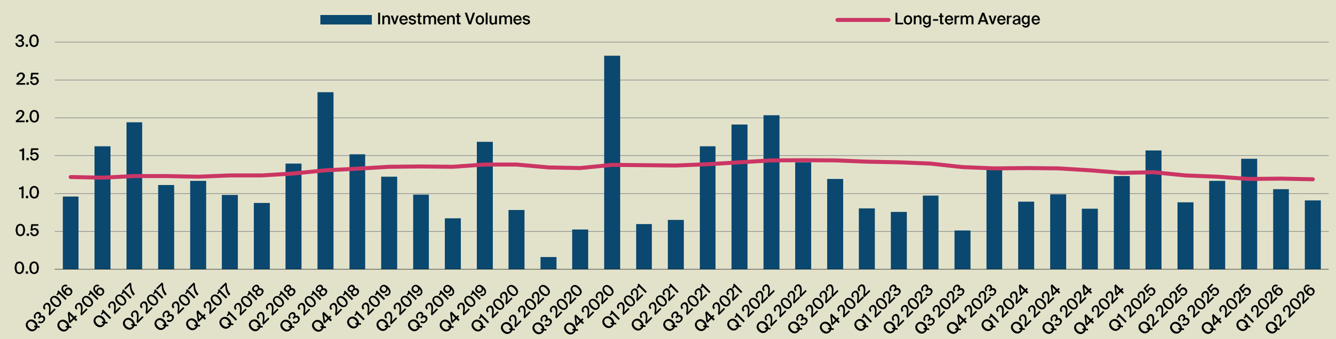
Q2 2026, % of total investment



Source: Knight Frank Insight

West End: Investment volumes relative to trend

£bn



Source: Knight Frank Insight

West End offices

Take-up jumps above trend

LEASING ACTIVITY REBOUNDS SHARPLY
Q2 take-up in the West End reached 1.4m sq ft, 52.3% above the previous quarter and 34.8% above the long-term average. There was a single transaction above 100,000 sq ft, Anthropic's 158,138 sq ft letting across the 3rd to 6th floors at British Land/Royal London Asset Management's 1 Triton Square, NW1.

Take-up in the 100,000 sq ft+ size band was 18.4% ahead of trend, but there was outperformance for all size band over 10,000 sq ft. Take-up below that 10,000 sq ft threshold, however, fell below average with 0-5,000 sq ft activity 7.7% below trend and 5,000-10,000 sq ft deals 27.5% below.

This divergence likely reflects a combination of larger corporate requirements progressing after extended search periods, continued flight to quality among major occupiers, and a more cautious approach from smaller businesses, some of which may be favouring flexible or managed solutions over conventional leases.

MORE ACTIVITY IN NON-CORE LOCATIONS
King's Cross/Euston attracted the highest volume of take-up, with the three largest deals in the submarket coming from the AI sector: Anthropic (158,138 sq ft), OpenAI (89,975 sq ft) and Prometheus (38,358 sq ft).

For the second consecutive quarter, Fitzrovia and Victoria saw above trend leasing momentum, attracting 306,288 sq ft and 205,533 sq ft, respectively. Take-up in the West End Core saw an improvement of 30.6% over the quarter, but take-up volumes remained 18.4% below the long-term average, driven in part by a lack of quality supply in the submarket.

AI REIGNS SUPREME
The continued wave of AI take-up meant that the TMT sector accounted for 35.1% of Q2 leasing activity, equivalent to 0.50m sq ft, which was 125.2% ahead of the long-term average. The next most active sector was professional services, which contributed a further 23.6% of Q2 take-up.

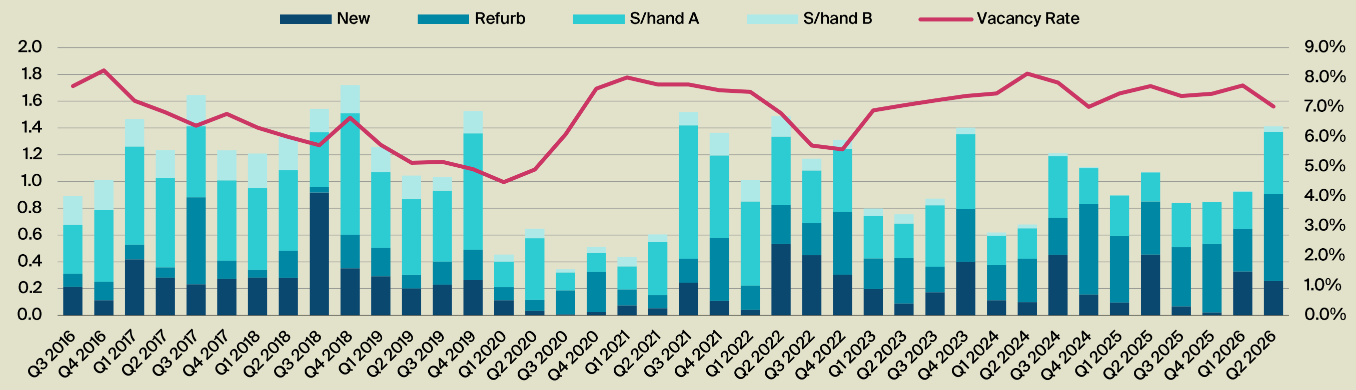
DEMAND STRENGTHENS AS AVAILABILITY FALLS
Technology occupiers remained the dominant source of demand during Q2, with continued expansion from AI-related businesses helping to drive leasing activity. The TMT sector accounted for more than a third of all take-up, significantly outperforming historic trends.

Encouragingly, active demand increased by almost 70% over the quarter to just under 3.4m sq ft, providing a strong foundation for future leasing activity. At the same time, availability fell by 8.3% to just under 7.0m sq ft, reducing the vacancy rate to 7.0%.

The vacancy rate for new and refurbished space also tightened as occupiers continued to target high-quality buildings.

Prime rents increased in Bloomsbury and King's Cross/Euston during Q2, whilst remaining unchanged elsewhere, reflecting stronger leasing momentum in these increasingly sought-after submarkets.

West End: Take-up by quality and vacancy rate
M sq ft, % of stock (RHS)



Source: Knight Frank Insight

Docklands & Stratford offices

Canary Wharf sees leasing and investment success

CANARY WHARF DRIVES LEASING RECOVERY

Following a subdued first quarter, leasing activity rebounded strongly across the Docklands & Stratford market during Q2.

Take-up reached 308,619 sq ft, representing a 493.0% increase over the quarter and standing 69.2% above the long-term average. Unlike previous periods of strong performance, activity was spread across a broader range of transaction sizes, with no lettings above 100,000 sq ft completing during the quarter.

New and refurbished accommodation continued to dominate occupier demand, accounting for more than 60% of all take-up and almost 90% of leasing activity over the last 12 months. The recovery was concentrated in Canary Wharf, where improving occupier confidence and competitive occupational costs continue to attract businesses seeking high-quality space within London.

AVAILABILITY FALLS BELOW TREND

The strong recovery in leasing activity contributed to a continued decline in availability, which fell by 3.1% over the quarter to 2.7m sq ft. This reduced the vacancy rate to 10.7%, now below the long-term trend.

New and refurbished stock accounts for over 70% of available accommodation, although vacancy within this segment increased modestly during the quarter. More than half of all availability remains concentrated within units of over 100,000 sq ft, reflecting the market's continued ability to accommodate large occupier requirements. Whilst no schemes completed during Q2, the under-construction pipeline expanded following revisions to One North Quay, preserving a future source of Grade A supply for the market.

CANARY WHARF PRIME RENTS RISE

The improving occupier backdrop also translated into stronger rental performance, with prime rents in Canary Wharf increasing from £57.50 to £62.50 per sq ft during Q2.

Rents across the wider Docklands and Stratford markets remained stable, but the return of leasing momentum has reinforced confidence in the submarket's ongoing recovery and repositioning. Prime rents remained stable across the remaining Docklands and Stratford markets.

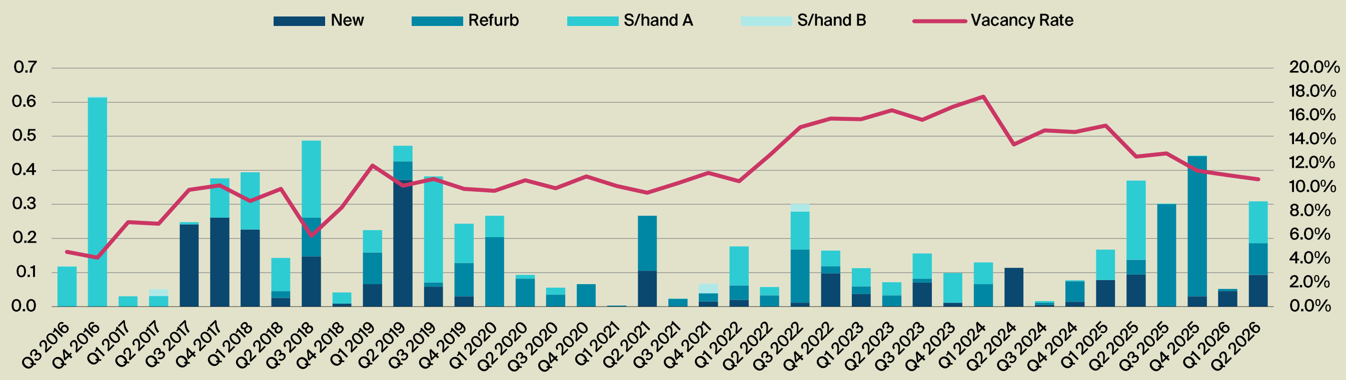
BARCLAYS ACQUISITION PROVIDES A MAJOR VOTE OF CONFIDENCE

The defining investment event of the quarter was Barclays' acquisition of its headquarters at 1 Churchill Place, E14, in a transaction valued at £750m.

Whilst owner-occupier purchases of this scale remain unusual, the deal represents a significant endorsement of Canary Wharf and London's position as a leading global financial centre.

Prime yields remain unchanged at 6.75%.

Docklands & Stratford: Take-up by quality and vacancy rate
M sq ft, % of stock (RHS)



Source: Knight Frank Insight

South East offices

While investment volumes remain relatively low, market activity is underpinned by an increasing number of assets coming to market, supporting liquidity

INVESTMENT VOLUMES REMAIN LOW

Investment activity across the South East and Greater London remained subdued in the second quarter, with £248m of office transactions completed. While this represented a 3% increase on Q1 2026, volumes remained 28% below the five-year quarterly average, reflecting continued caution among investors. At the halfway point of the year, total investment volumes had reached £488m. This was 8% lower than the level recorded in H1 2025 and 42% below the five-year average for the first half, highlighting the ongoing slowdown in transaction activity. Even so, deal flow remains reasonably aligned with historical norms. A total of 41 transactions were completed in H1 2026, just eight fewer than the five-year average for the period. Average deal size has increased to £11.9m, suggesting that while transaction volumes remain subdued, lot sizes are beginning to rise..

SMALLER LOT SIZES DOMINATE

In H1 2026, 14 deals were completed above £10m, with three exceeding £20m. The largest deal in Q2 was British Land's acquisition of Life Science REIT (LABS) for £150m. First announced in January, the deal will bolster BL's exposure to science and technology assets in the 'golden triangle' between London, Cambridge and Oxford.

Buyer activity was dominated by UK capital, which accounted for 80% of total investment volumes during the period. Listed property companies represented 36% of capital deployed, largely driven by British Land's acquisition of Life Science REIT. Private property companies contributed a further 16%, while private investors accounted for 12% of investment activity.

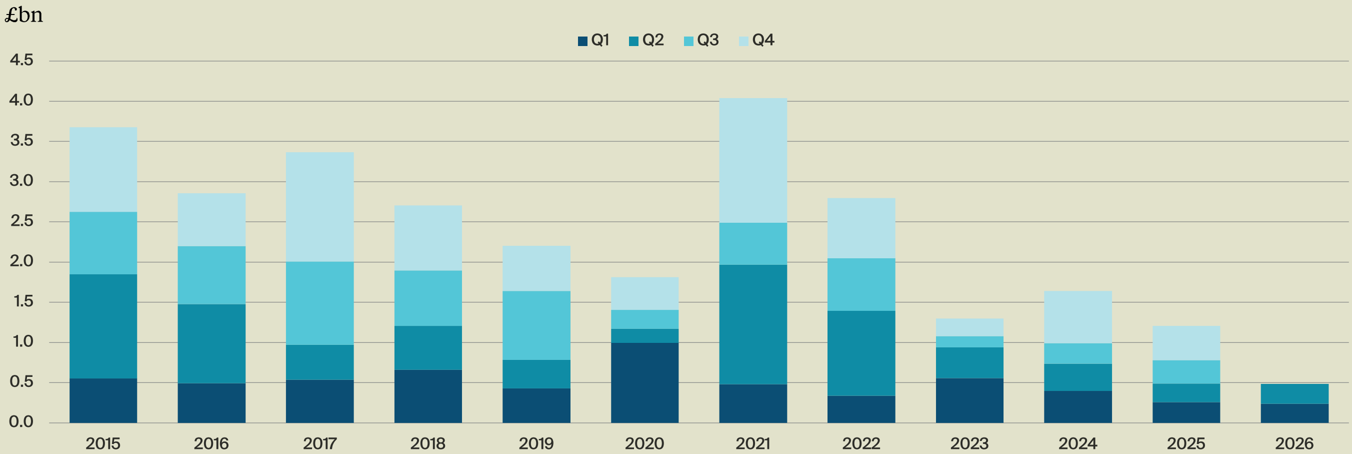
STOCK AVAILABILITY INCREASING

Buyer activity was dominated by UK capital, which accounted for 80% of total investment volumes during the period. Listed property companies represented 36% of capital deployed, largely driven by British Land's acquisition of Life Science REIT. Private property companies contributed a further 16%, while private investors accounted for 12% of investment activity.

PRICING SHOWS VALUE

Prime yields for 15-year income remain at c.7.00%, albeit there were no transactions at this level during the first quarter. Opportunistic buyers are currently the most active, targeting attractively priced asset management projects. UK debt markets remain cautious but broadly stable, with SONIA and EURIBOR swap rates showing only modest movements despite ongoing economic uncertainty. UK 5-year SONIA swaps stood at 4.08%, slightly higher than a week earlier but below the levels seen a month ago, while 3-year SONIA swaps were unchanged at 4.00%. Government bond yields have edged higher in the short term, with the 5-year, 7-year, and 10-year gilt yields rising to 4.35%, 4.50%, and 4.86%, respectively.

South East: Investment volumes



Source: Knight Frank Insight

South East offices

A strong start to 2026, underpinned by larger requirements and sustained demand for best-quality space

LEASING MOMENTUM CONTINUES

Leasing activity remained resilient in Q2, with 620,292 sq ft of take-up recorded, representing a 9% decline on Q1 2026. Transaction volumes were largely unchanged, with 75 deals completed in Q2 compared with 77 in Q1, highlighting continued occupier engagement.

As a result, total take-up for H1 2026 reached 1.3m sq ft. While this is below the exceptionally strong first half of 2025, activity remains broadly in line with the five-year H1 average. This suggests that, despite a moderation in demand from last year's peak, market activity remains at a healthy level by historical standards.

The flight to quality continues to shape leasing activity. In H1 2026, 30% of take-up was concentrated in new or newly refurbished space, underlining occupiers' preference for the highest-quality accommodation. A further 48% was secured in existing Grade A space, while just 22% of take-up was directed towards Grade B and lower-quality stock. This distribution highlights the ongoing demand for best-in-class space and the challenges faced by older buildings.

Active occupier requirements totalled 4.5m sq ft at the end of the quarter, highlighting a healthy demand pipeline across the market. TMT occupiers accounted for 26% of active requirements, while Financial and Business Services firms represented a further 19%. Together, these sectors continue to underpin market activity and reinforce their importance as key sources of occupier demand.

SUPPLY POLARISING

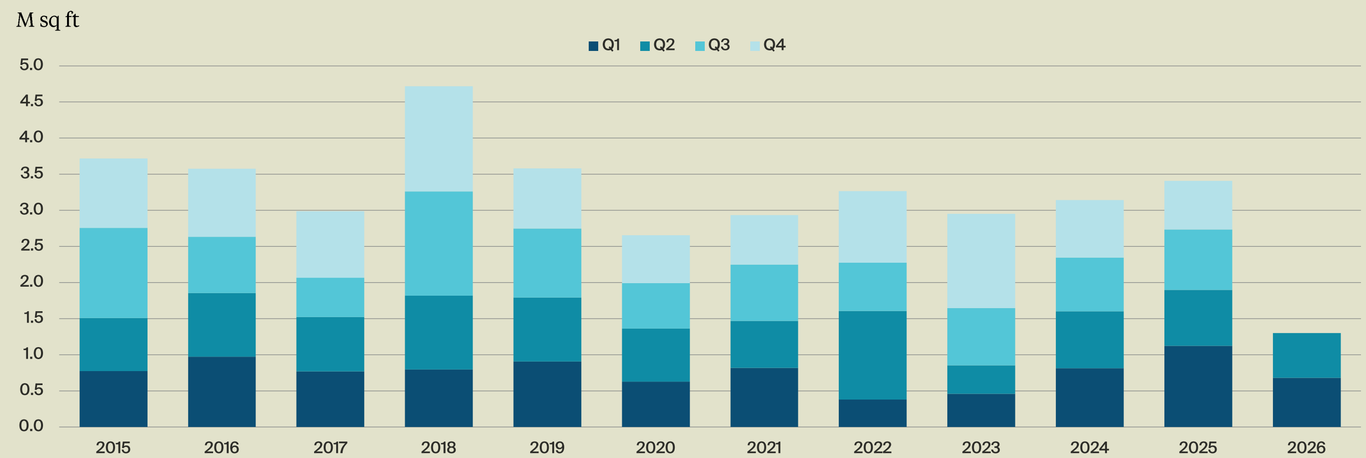
Overall vacancy increased slightly to 11.0%, up from 10.6% in Q1 2026, reflecting a modest rise in available space across the market. In contrast, Grade A vacancy tightened from 6.6% to 6.5%, highlighting continued competition for high-quality accommodation and reinforcing the ongoing flight to quality among occupiers.

Development activity remains constrained, with 1.3m sq ft under construction across 16 schemes as at Q2 2026, all scheduled for completion by mid-2028. New supply remains heavily concentrated, with Cambridge and West London accounting for 73% of the speculative development pipeline. This highlights the limited volume of development activity across the wider market.

RENTS CONTINUE TO RISE

Rental growth remained widespread during the quarter, with 10 markets recording increases in headline rents. The uplift in Oxford was particularly notable, with town centre rents rising by 11.5% to £72.50 per sq ft. This reflects the strength of occupier demand for prime office space in highly constrained locations.

South East: Occupier take-up



Source: Knight Frank Insight

UK Cities offices

Office investment activity showed signs of recovery, supported by benchmark transactions, increased stock availability and improving buyer-seller pricing alignment

OFFICE INVESTMENT VOLUMES HIGHEST SINCE 2022

Office investment volumes across the UK regional cities totalled £289m of office stock transacted, 39% ahead of the equivalent quarter in 2025. This meant that, at mid-year, Investment volumes for the first six months of 2026 had reached £820m, representing the highest H1 total in four years.

A total of 28 deals were completed during Q2. This meant that deal numbers rose to 62 for the first half of the year. This is the highest level of activity since 2018. Significantly, three deals over £50m have been completed in 2026. These were Bank of New York Mellon's acquisition of 4 Angel Square for £114m, Melford Capital's purchase of Waverley Gate in Edinburgh for £77m, and, most recently, Lloyds' acquisition of 10 Canon Way for £66m.

Moving forward, momentum is expected to build into 2026, with approximately £310m of assets under offer at quarter-end and a further £1.1bn being marketed.

The buyer pool remains narrow but expanding. Private equity investors and UK-based property companies are the most active participants, together accounting for around 60% of total investment volumes in H1 2026. Over the coming year, this base is expected to broaden as overseas capital and UK institutional investors return.

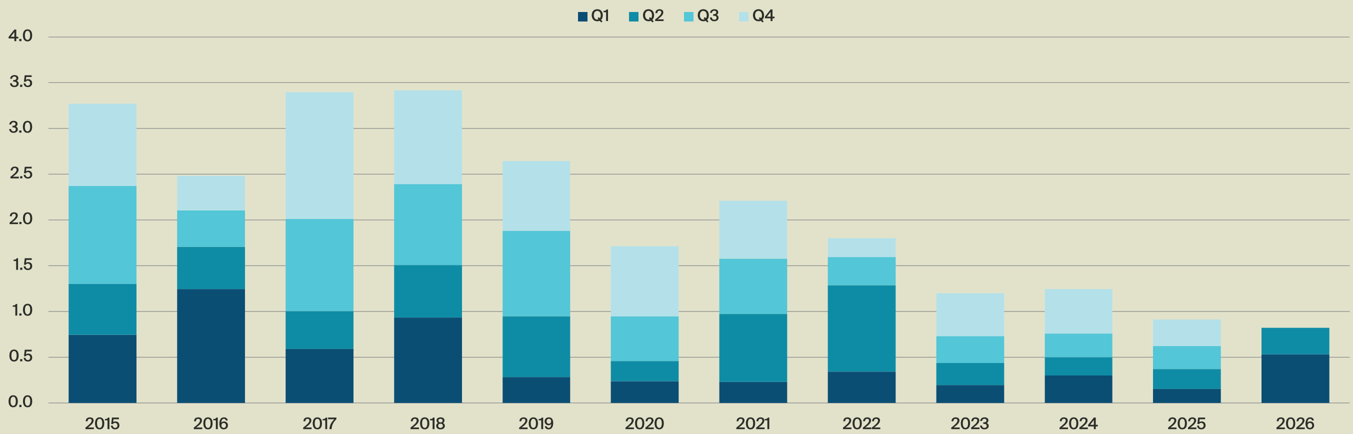
PRICING HOLD FIRM

Prime office yields across the UK regional cities have remained broadly stable in 2026, ranging from around 6.50% in Edinburgh to 10.00% in Aberdeen. While pricing has largely settled following the sharp repricing cycle of recent years, regional office assets continue to offer an attractive income premium relative to risk-free benchmarks and many competing real estate sectors.

The value proposition is particularly evident when compared with Central London, where prime yields remain significantly lower at around 5.25% in the City and 3.75% in the West End. Combined with continued occupier demand for high-quality, well-located space, the strength of leasing fundamentals is expected to support improving liquidity and higher transaction volumes across the regional office investment market over the next 12 to 18 months.

UK Cities: Investment volumes

£bn



Source: Knight Frank Insight

UK Cities offices

Regional office leasing activity picked up, underpinned by professional services and TMT demand and intensifying competition for prime space

LEASING ACTIVITY GATHERS MOMENTUM

Take-up strengthened in the second quarter, reaching 1.4m sq ft across 239 transactions. This brought total take-up for the first half of 2026 to 2.57m sq ft, the strongest H1 performance since 2019.

A total of 493 deals completed during the first six months of the year, including eight transactions exceeding 50,000 sq ft, making H1 2026 the most active start to a year since 2022.

Financial and Professional Services led occupier demand, accounting for 29% of take-up, followed by the Public Sector at 24%. Public Sector organisations were particularly prominent, completing four of the five largest transactions recorded so far this year.

Looking ahead, occupier demand remains robust, with 3.9m sq ft of active requirements in the market. Financial and Professional Services continue to dominate, representing 43% of requirements, while the Technology and Public sectors each account for a further 13%.

The flight to quality remains a defining theme across the regional office markets. Grade A space accounted for 64% of total take-up, underscoring occupiers' continued preference for high-quality, modern, amenity-rich accommodation.

VACANCY INCREASES AS GRADE A SUPPLY CONTINUES TO TIGHTEN

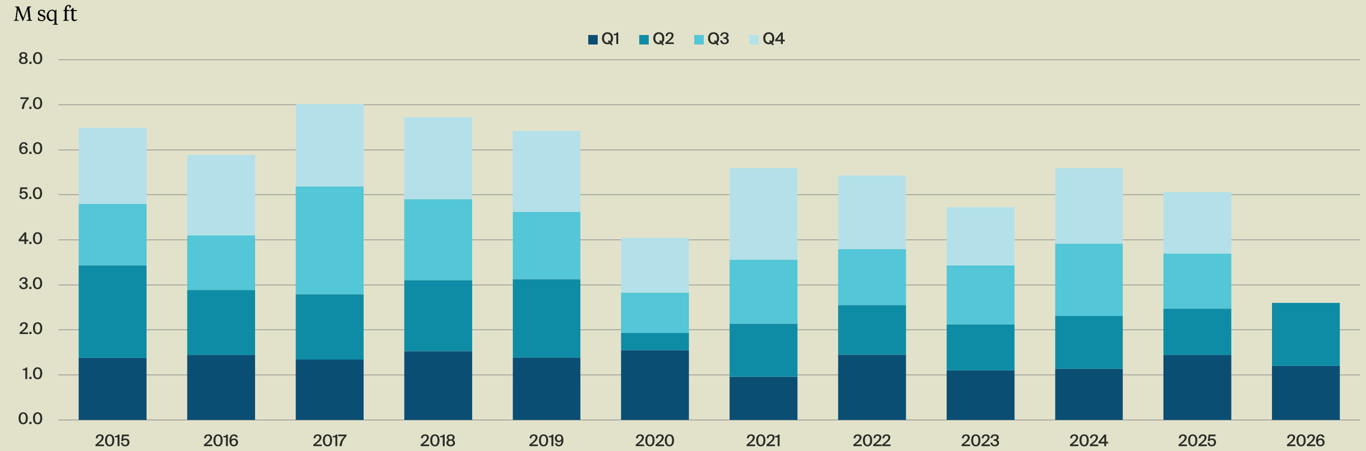
Overall vacancy remains elevated at 11%. However, availability of the highest-quality space continues to decline, with new and Grade A supply falling to 3.6 m sq ft in Q2. This is 4% lower than a year ago and the lowest level recorded since the end of 2024. As a result, Grade A vacancy fell to just 3.0% of total stock, highlighting the continued competition for the best space.

Development activity also remains constrained. At the end of Q2, only 2.3m sq ft of speculative space was under construction and due for completion before 2029, limiting the volume of new supply likely to enter the market over the next few years.

UPWARD PRESSURE ON RENTS MAINTAINED

Against this backdrop of limited high-quality supply, prime rents continued to rise. The average regional prime rent reached £42.50 per sq ft, representing annual growth of 7%. The strongest year-on-year increases were recorded in Leeds (31%), Birmingham (16%) and Cardiff (12%), reflecting sustained occupier demand for best-in-class accommodation.

UK Cities: Occupier take-up



Source: Knight Frank Insight

Industrial & distribution

Investment and occupational markets

CONTACT: CLAIRE WILLIAMS

Industrial & distribution

Volumes ease but investors stay active as domestic capital steps up

CAPITAL KEEPS FLOWING DESPITE A SOFTER HEADLINE

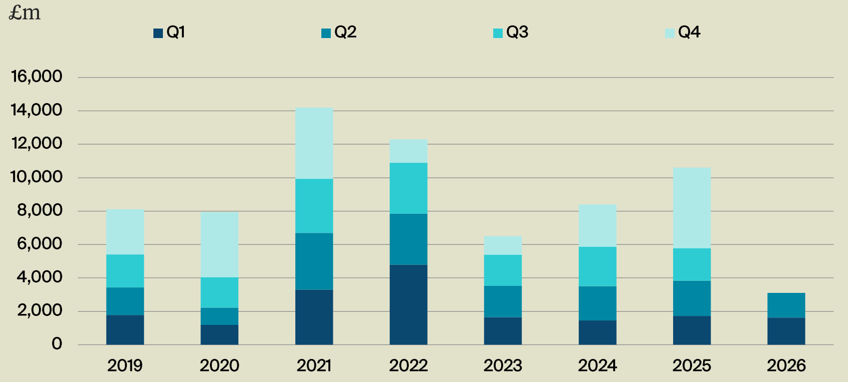
Transaction volumes reached £1.49bn over the quarter, a modest 8% retreat from Q1's £1.62bn. Rather than signalling hesitation, the numbers point to a market that has learned to operate through uncertainty: with geopolitical noise, domestic politics and higher borrowing costs now treated as the norm rather than the exception, buyers are choosing to act.

Deal sizes trended smaller - the average lot fell to £24.4m from £28.9m - yet several sizeable transactions completed, among them EQT's £199m swoop on a six-strong Tritax portfolio, Hines' £138.6m purchase of Heathrow Logistics Park, and ICG's roughly £200m Springbox acquisition. Appetite for multi-let estates has been a defining theme of 2026, as buyers chase the value that hands-on asset management can unlock.

THE BUYER MIX REBALANCES AS PRICING FINDS ITS FEET

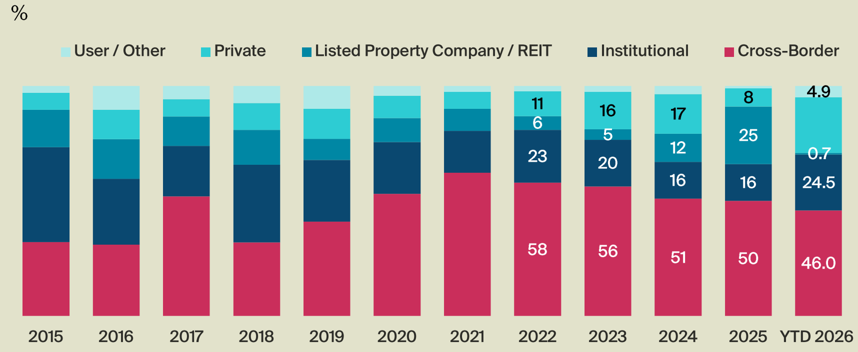
Overseas money still led the field at 46% of H1 volumes, but its grip is loosening as home-grown capital re-enters in force. Institutions took a 25% slice - their biggest since 2019 - and private capital hit a record 24%, while listed players and REITs stayed on the sidelines. The higher-for-longer rate backdrop is steering demand towards assets with reversion, repositioning or active-management potential and pushing return-hungry buyers further up the risk curve. Almost four in ten deals priced at 7.0% or above, a near-total reversal of the sub-5% market of 2022. Prime yields nudged outward on the back of gilts hovering near 5%, but a late-quarter easing in swap rates (five-year SONIA down to 4.03%) hints that clearer exit pricing and stronger liquidity could define the second half.

Industrial & logistics - Investment total



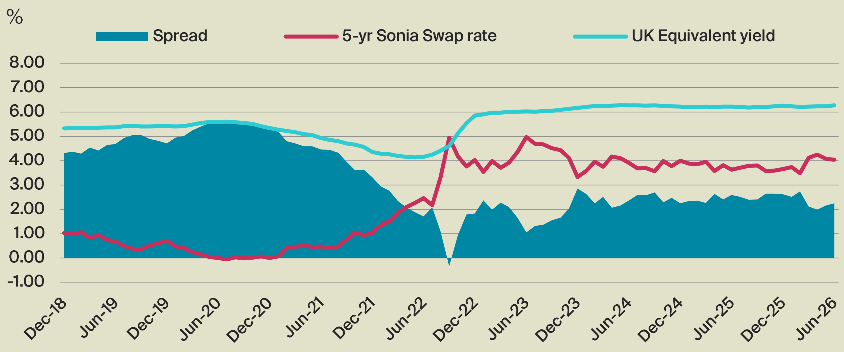
Source: Knight Frank Insight

Capital composition



Source: Knight Frank Insight, RCA

UK Industrial equivalent yield and 5-year SONIA swap rate



Source: Knight Frank Insight, MSCI, Macrobond

Industrial & distribution

Demand rebounds as the flight to quality keeps Grade A tight

RETAIL AND ECOMMERCE REIGNITE LEASING MOMENTUM

Occupiers signed for 10.3m sq ft over the quarter - a 15% lift on Q1 that more than offsets the softer YoY comparison and signals a market regaining its stride. Retailers were the standout force, responsible for 44% of the total, with online supply chains driving much of the activity both directly and via 3PLs.

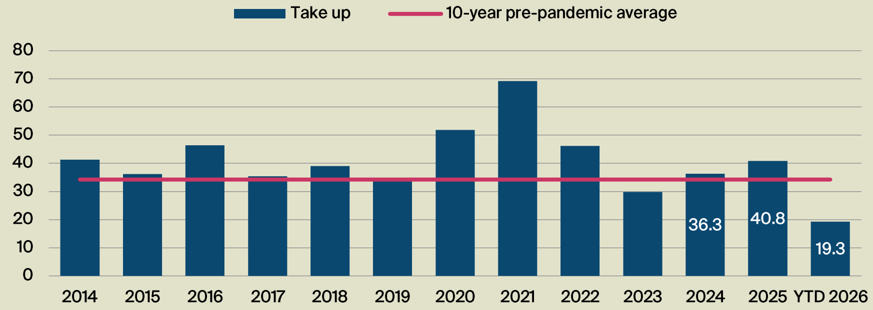
Amazon's return to the acquisition trail was the clearest sign of renewed confidence in the big-box arena. What occupiers want, however, has narrowed: power capacity, eaves height, floor loading and automation-readiness now shape decisions as much as location, and interest in fitted or part-fitted units is climbing as businesses look to move in faster and spend less upfront.

A TWO-SPEED MARKET: VACANCY CLIMBS WHILE QUALITY STAYS SCARCE

Grade A space carried half of all take-up this quarter and 57% across the first half - a striking jump from its 26% five-year norm - as occupiers doubled down on the best buildings. On paper, choice has widened: availability swelled by 10.9m sq ft over H1 to reach 97.1m sq ft, lifting the headline vacancy rate to 8.0%. But nearly nine-tenths of that increase was second-hand stock, and the modern end of the market tells a very different story, with Grade A vacancy sitting at just 4.4%. With only 56 speculative schemes (7.7m sq ft) under way and viability still squeezed by build costs, the shortage of prime, ready-to-occupy space shows little sign of easing and it is precisely this scarcity that continues to underpin rents.

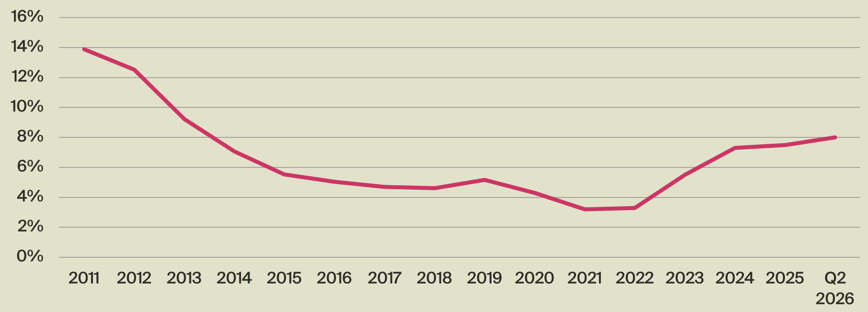
Average UK rental growth is forecast at 2.4% in 2026, easing from 4.2% last year, with the tightly held modern end of core distribution hubs expected to outperform.

Take-up (units over 50,000 sq ft)
M sq ft



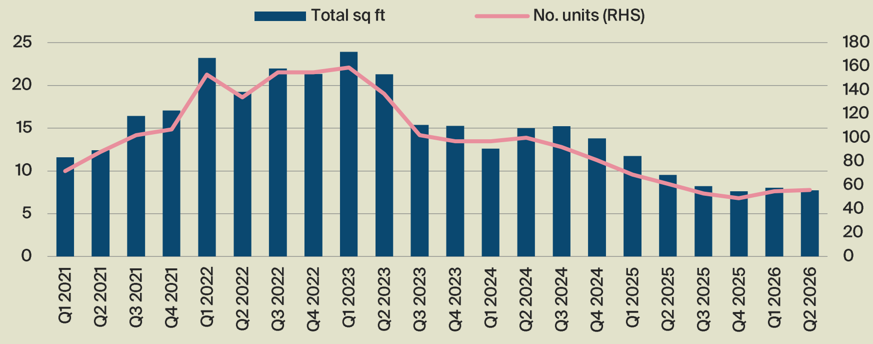
Source: Knight Frank Insight

Vacancy rate (units over 50,000 sq ft)
%



Source: Knight Frank Insight

Speculative development under construction
M sq ft



Source: Knight Frank Insight

Retail & leisure

Retail, high street, shopping centres, out-of-town, leisure, foodstores and Central London

CONTACT: STEPHEN SPRINGHAM

Retail

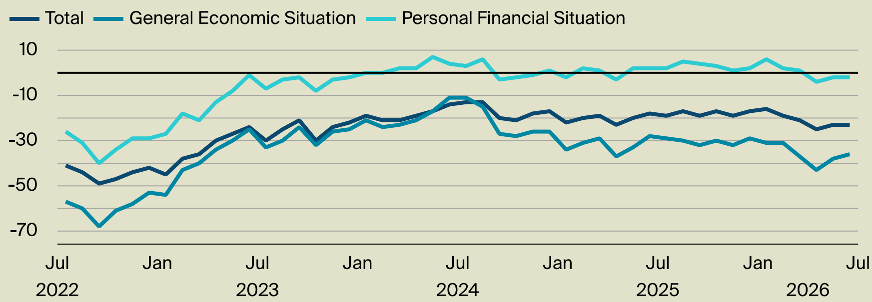
Investment markets remain cautious and nervous in equal measure, retail occupier markets characteristically resilient and the UK consumer steadfastly defiant – or just indifferent

THE GOOD, THE BAD, THE CAUTIOUS
The Bad encapsulated in ongoing geopolitical unrest, both globally and domestically. The Cautious in the response to these events amongst real estate investment markets (with some notable exceptions). The Good represented in consumer and retail occupational metrics, plus retail real estate performance, all of which continue to defy perceived economic wisdom.

EXCEPTIONAL CONSUMER DEMAND
Retail sales performance has been extremely robust YTD, the cost-of-living crisis in no way manifest in the numbers. A relatively weak April was followed by two consecutive months of stellar growth. Retail sales values (exc fuel) in Q2 were up +6.3% YoY, with volumes ahead by +4.1%. Growth was strong across both food (vals: +3.4%, vols. +1.2%) and non-food (+7.8%, vols. +6.0%). Expected inflationary pressures in the wake of the war in the Middle East have yet to materialise. Shop price inflation actually decelerated in Q2, declining from 2.3% in March to 1.7% in June. While inflation aftershocks are still a possibility, the war in the Middle East has to date had no impact on consumer demand.

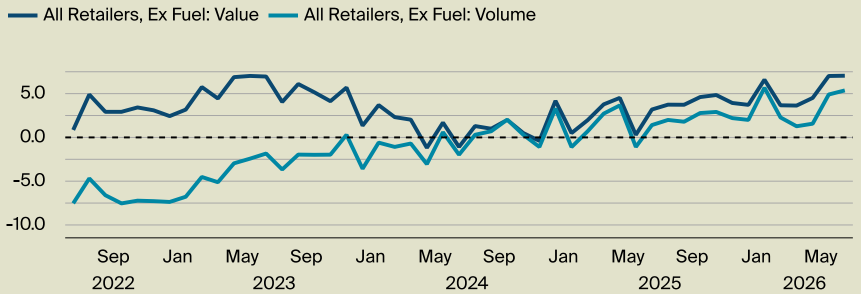
SUBDUED INVESTMENT ACTIVITY
Total retail investment volumes totalled £2.09bn in H1 2026, down -17% on the same period in 2025. Investment markets remain far more sensitive to geopolitical events, leading many owners and would-be investors to delay or defer investment decisions. Shopping Centres bucked this trend, with volumes up +95% to £870m in H1 2026. These figures were boosted by big ticket deals such as Merry Hill. With a strong pipeline of Shopping Centre stock coming to the market, volumes should return to long-term averages this year.

Consumer confidence
Confidence over the next 12 months



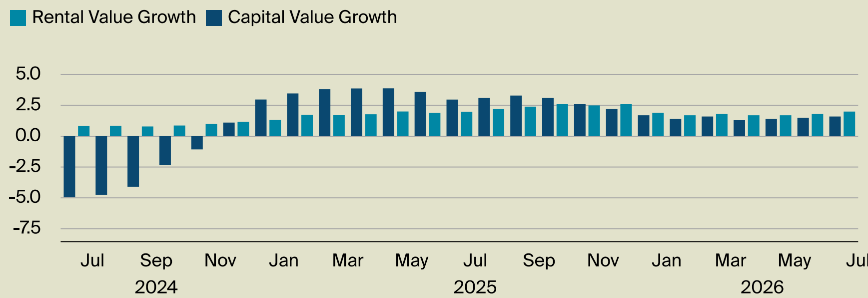
Source: Gfk

ONS retail sales
Monthly YoY change, %



Source: ONS

All retail – rental/capital value growth
Rolling 12 month % change



Source: MSCI

High street retail

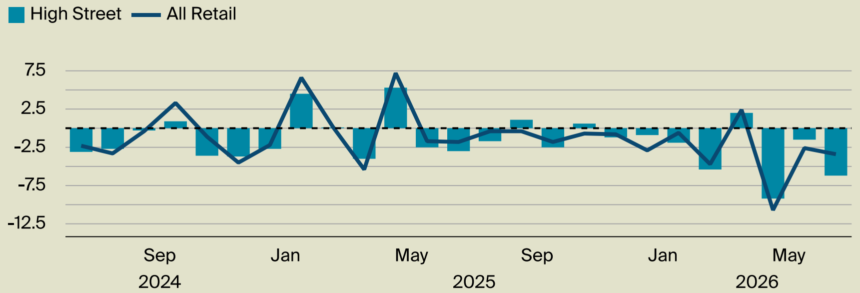
A renewed opportunity to aggregate high income-producing estates from disenchanted owners?

FOOTFALL A WEAK BAROMETER
As ever, footfall trends were completely out of sync with retail sales patterns. High Street footfall slumped -9.2% in April, recovering slightly to -1.5% in May, before sliding a further -6.2% in June. Contrast this with robust retail sales value growth across the quarter (Apr: +4.5%, May: +7.1%, Jun: +7.1%.) Consumer demand remained strong for a number of core high street categories, including Cosmetics (Q2 sales YoY +18.9%), Jewellery & Watches (+18.3%) and Clothing (+7.7%), but others were more challenged e.g. Footwear (-6.0%) and Chemists (-5.2%).

STABLE OCCUPATIONAL MARKET
There has been fairly limited retail occupier distress in the first half of the year. The Centre for Retail Research lists just 12 business 'failures' (those undertaking some sort of restructuring, a CVA or administration), with some 509 stores affected. By far the largest protagonist was TG Jones (formerly WH Smith's high street business) with ca. 450 stores. Rather than a sign of wider malaise, this represents the latest in the string of failures of businesses owned by Modella Capital (Original Factory Shop, Claire's, Hobbycraft) that have suffered a similar fate. Against this backdrop, high street vacancy rates (14.3% overall, 13.2% exc. Leisure) were stable in Q2 and remain at their lowest level since Q3 2020, according to Green Street.

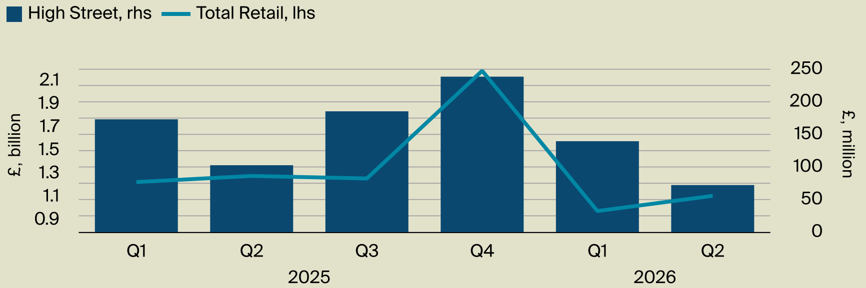
THE INSTITUTIONS ARE BACK?
More than half a dozen UK institutions are now actively targeting high street investments, including a number of investors who sold down on Retail in distressed periods either side of COVID. Deal volumes are yet to reflect this uptick in activity and stood at £215m in H1 2026, -22% lower than the £280m traded in the same period last year. Prime yields are 6.25%, some +225bps higher than their peak in 2016 – a pricing opportunity that is increasingly being recognised.

High street footfall
Monthly YoY change, %



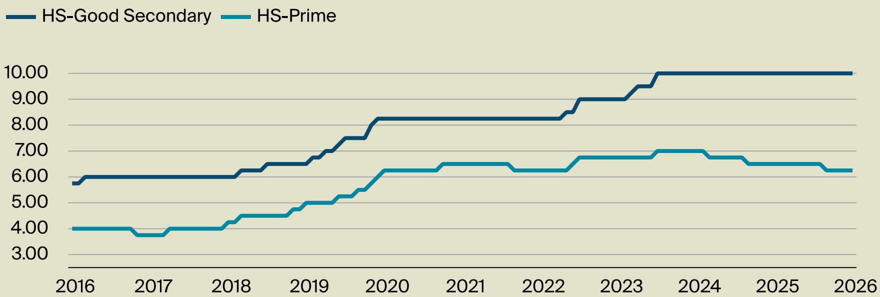
Source: BRC / Springboard

High street investment volumes



Source: Knight Frank Insight

High street yields
%



Source: Knight Frank

Shopping centres

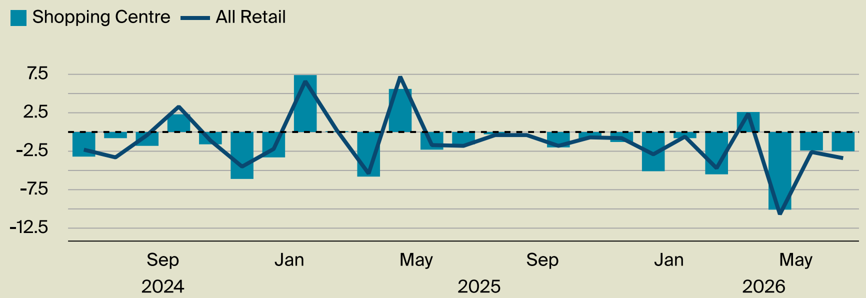
Awakening of a 'sleeping giant'

DEMAND DEFIES EXPECTATIONS
As with High Streets, Shopping Centre footfall and retail sales were wildly out of kilter for most of the quarter, the former weak (Apr: -10.1%, May: -2.4%, Jun: -2.5%), the latter very strong (Apr: +4.5%, May: +7.1%, Jun: +7.1%.) The key positive for shopping centres remains strong consumer demand for several of its main constituent categories. Demand for Clothing was very strong in Q2 (values +7.7%, volumes +6.7%) and more robust still in Cosmetics (+18.9%, +16.5%). Inflationary pressures largely remained in check and even where inflation was in evidence, it did not stymie demand e.g. Watches & Jewellery (+13.9%, +5.1%).

THE CURSE OF MODELLA
The occupational copybook continues to be blotted by Modella Capital. Having already liquidated two of its earlier acquisitions (The Original Factory Shop and Claire's with 122 and 156 stores respectively), TG Jones (formerly WH Smith) was inevitably subject to an aggressive restructuring programme. The plan, which could see up to 150 of the 450-strong estate close, was granted High Court approval on 1 July. Despite the negative headlines this generated, Shopping Centre vacancy rates continue to show considerable improvement, declining QoQ by -80bps (-80bps YoY) to end Q2 at 16.1%.

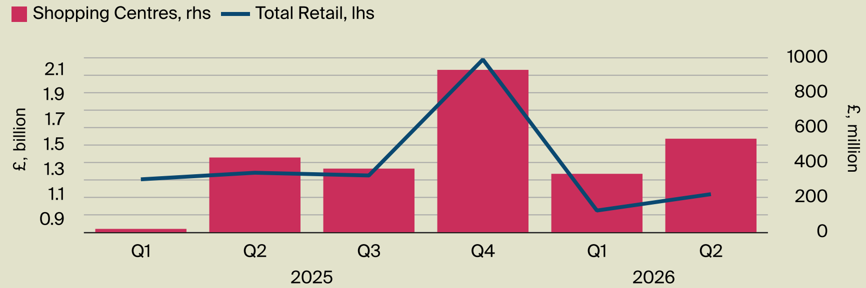
BACK IN VOGUE
H1 Shopping Centre deal volumes surged 95% to £870m, boosted by a number of 'big ticket' deals, such as Merry Hill (sold by KF for £290m). H2 should see further acceleration, with £1bn of sales either under offer or on the market. KF's ongoing sale of Metrocentre (guide price of £500m) will prove a bellwether for the sector, with the residual investment pipeline largely fuelled by assets formerly within the intu portfolio. FY deal volumes should return to long-term annual averages of £2bn+.

Shopping centre footfall
Monthly YoY change, %



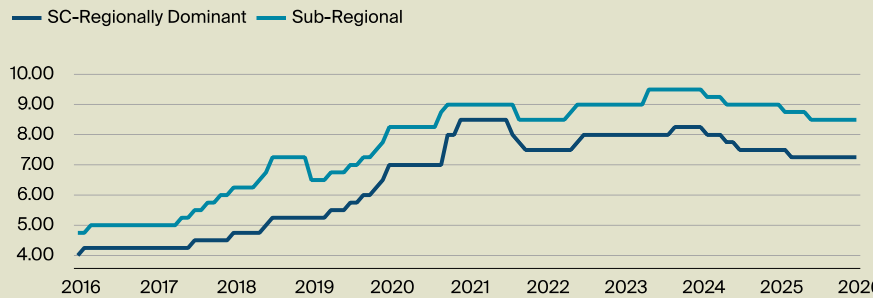
Source: BRC / Springboard

Shopping centre investment volumes



Source: Knight Frank Insight

Shopping centre yields
%



Source: Knight Frank

Out-of-town

Inertia in investment markets and potential supply challenges overshadow strong performance

SPEND VS. FOOTFALL DISCONNECT

Footfall and retail sales continue to diverge, the latter a far better barometer of actual consumer demand. RWH footfall was negative across Q2 (Apr: -9.0%, May: -0.5%, Jun: -0.3%). But retail sales remained buoyant. In Q2, retail sales values (exc fuel) grew +6.3% YoY, with volumes ahead by +4.1%. A number of bulky goods categories performed very well, particularly PCs & Telecomms (+42.6%), Furniture (+10.9%) and DIY (+8.0%).

VACANCY – HOW LOW CAN IT GO?

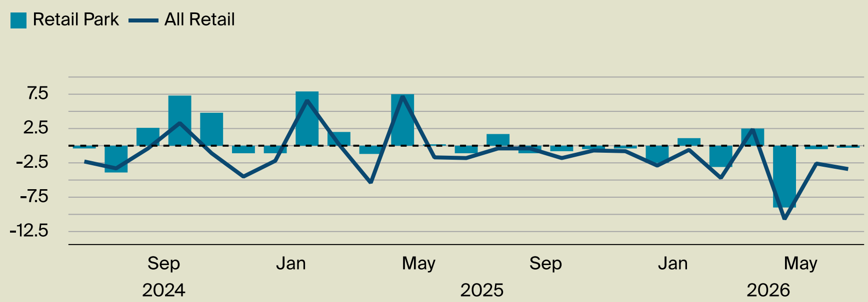
A supply crisis? Seemingly positive metrics are starting to raise some red flags, with occupational demand in danger of significantly outstripping current and future supply. According to Trevor Wood Associates, the RWH vacancy rate fell to another record low of 4.7% in Q2 2026 (with Open A1 schemes at 5.3% and Bulky Goods Parks at 3.5%). Stripping out space that is under offer or earmarked for redevelopment gives a 'real-terms' headline vacancy rate of just 3.0%. The development pipeline also remains limited, with just 0.54m sq ft of consented space expected to be delivered over the next two years.

LACK OF MOTIVATED SELLERS

RWH investment volumes were £490m in Q2. Although this marked a +38% uplift on Q1, for the HY as a whole, total volumes of £840m were ca. -43% lower than the corresponding period the previous year and around -26% below the 10-year Q2 average. Volumes may appear depressed, certainly in the context of some bumper quarters in 2024 and early 2025, but this belies strong, ongoing investor demand. However, this demand is not mirrored in stock availability, with many landlords and would-be sellers under no motivation to do deals in the current environment.

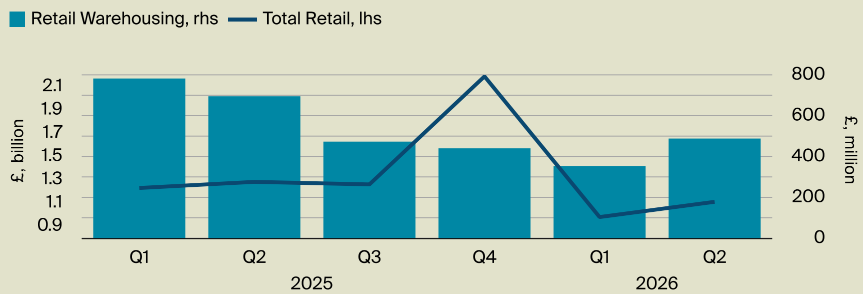
Retail park footfall

Monthly YoY change, %



Source: BRC / Springboard

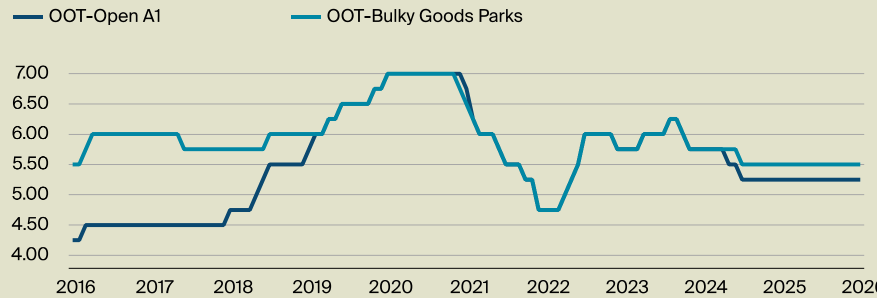
Retail warehousing investment volumes



Source: Knight Frank Insight

Retail warehouse yields

%



Source: Knight Frank

Leisure

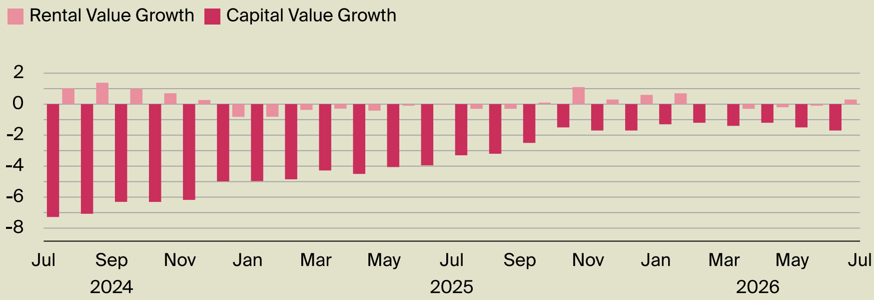
Narrative around the World Cup providing a huge boost to Hospitality not reflected in the numbers

WORLD CUP – A DAMP SQUIB?
The anticipated bonanza in Leisure spending on the back of the World Cup did not materialise. According to Barclaycard, overall Hospitality & Leisure spend increased by just +1.0% in June, failing even to offset softness in spend the previous two months (Apr: -1.3%, May: 0.0%). Supposedly the greatest beneficiary, Bars, Pubs & Clubs saw spending grow just +0.7% in June (Apr: +1.0%, May: -1.5%), while Takeaways and Fast Food spend grew +0.5% (Apr: -1.3%, May: +2.9%). Restaurants had a stronger April (+1.1%) but saw demand tail off as the quarter unfolded (May: +0.4%, Jun: 0.0%). In essence, the World Cup merely displaced and redistributed spend, as opposed to driving any tangible, incremental growth.

CLOSURES OFFSET BY NEW OPENINGS
Data from NIQ, powered by CGA intelligence, shows there were 98,564 licensed outlets at the end of June 2026. This is virtually identical to three months previously, and just -0.2% below the level of June 2025. The QoQ performance is a modest improvement on a -0.3% decline between Jan. and Mar. A total of 1,839 licensed outlets closed between Mar. and Jun. – equivalent to ca. 20 sites per day. However, many of the shuttered venues were swiftly reoccupied, and the number of new openings in the second quarter, 1,794, was only just short of the total closures.

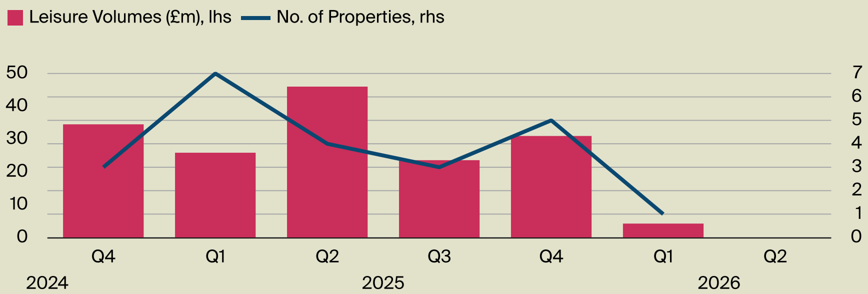
CAPITAL VALUES DECLINE
According to MSCI, Leisure rents grew by just +0.2% in Q2. Capital values declined by -0.6% QoQ, taking rolling 12 month CVG to -0.9%. Question marks over tenant covenant strength continue to weigh heavily on investment markets, the recent CVAs of restaurants Las Iguanas, Leon, Franco Manca and The Real Greek underlining these concerns.

Leisure – rental / capital value growth
Rolling 12 month % change



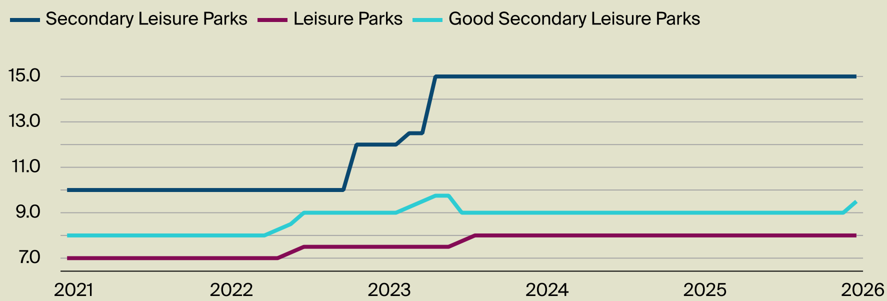
Source: MSCI

Leisure investment volumes



Source: RCA

Leisure yields
%



Source: Knight Frank

Foodstores

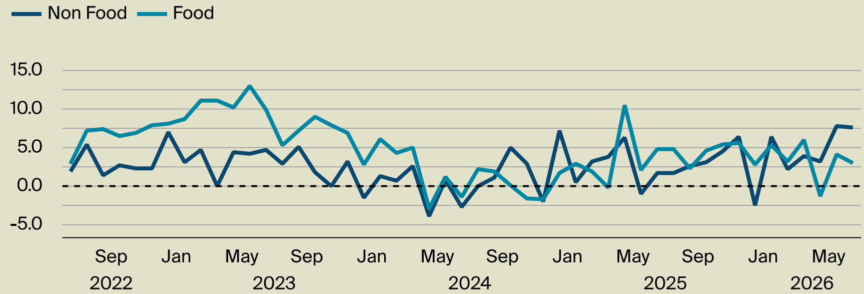
Strong interest for very limited stock

INFLATION GOES AGAINST THE GRAIN
Grocery demand more than held up in Q2 and inflation did not play out as expected – quite the contrary. According to the ONS, Grocery sales values increased YoY by +3.7%, while volumes were ahead by +1.0%. In both cases, this marked an acceleration on Q1 (+3.4%, +0.3%). Despite ongoing events in the Middle East, inflation actually eased over the quarter, declining from +3.4% in March to +2.8% in April and +2.2% in May.

BACK TO BASICS
According to Worldpanel by Numerator, for the 12 weeks to 12 July, Lidl gained the most market share (+50bps), cementing its position as the UK's 5th largest grocer after overtaking Morrison's in May. M&S (+16%) and Ocado (+14.1%) saw the strongest sales growth, while Asda was the only operator to witness a sales decline (-1.1%). Tesco and Aldi both saw some (-20bps) market share erosion, while Sainsbury's gained +10bps. With Sainsbury's disposing of Argos for £120m and Tesco reportedly looking to sell its last remaining overseas businesses in Central and Eastern Europe, the two biggest players in the market are poised for a significant doubling-down on their core UK food operations.

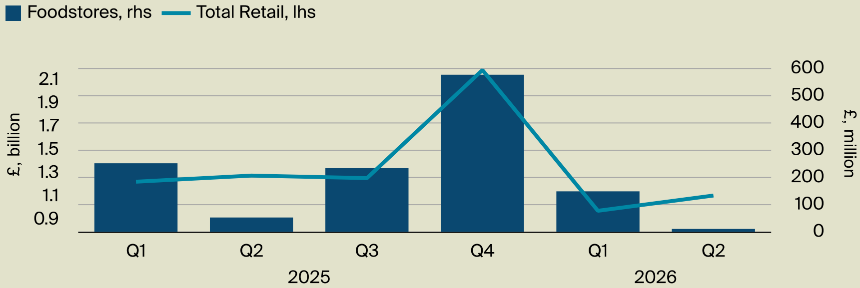
A DEARTH OF INVESTMENT STOCK
Supermarket volumes totalled just £160m in H1 2026, down -50% on the same period in 2025. A combination of a lack of willing sellers, limited arbitrage between prime yields and gilt rates and covenant challenges with private equity-owned Asda and Morrisons mean that 2026 is likely to be the lowest volume year since COVID. However, Tesco continues to acquire leased stores via pre-emption agreements and negotiated deals (e.g. Wokingham for £41.6m), while Waitrose is also buying in strong performing stores (e.g. Hersham for £22m).

Food vs. non-food retail sales
Monthly YoY change, %



Source: ONS

Foodstore investment volumes



Source: Knight Frank

Foodstore yields
%

Source: Knight Frank

Central London

Spend remains elusive, despite a large influx of international visitors – Oxford St rents recover

MORE VISITORS, BUT LOWER SPEND

Yet another quarter of three contrasting months – none particularly good. In April, there was a surge in international visitors (footfall +31.5%), but this only resulted in a marginal increase in spend (+1.0%). A similar surge in overseas visitors in May (footfall +31.5%), but a healthier uplift in spend (+12.7%). In June, a slight deceleration in overseas visitor numbers (+15.4%), but still a positive increase in spend (+1.4%). Contrast these swings with consistently weak figures from domestic visitors in terms of both footfall (-0.8%, -2.6%, -5.4%) and spend (-1.9%, -6.0%, -6.2%). YTD monthly average West End spend is down -1.2%, significantly below the +3.5% recorded nationally.

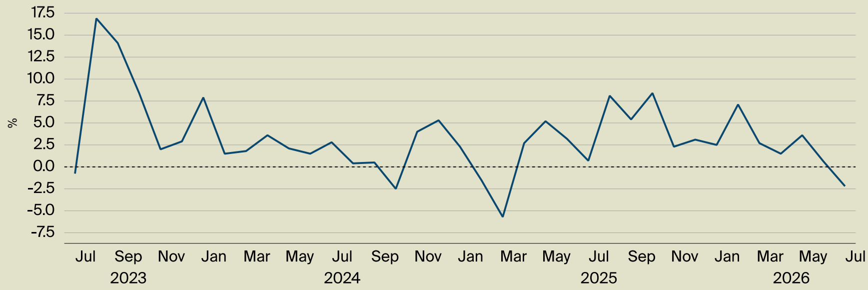
A QUIET OCCUPIER MARKET

A relatively subdued occupier market, but a flurry of F&B openings. CoStar lists 34 new retail leases signed in Q2 for Central London (Westminster and the City), totalling 88,000 sq ft of space. Even allowing for some degree of reporting time lag, both metrics were significantly below the 5-year quarterly averages (115 and 311,000 sq ft) Shaftesbury Capital has latterly proved particularly active in securing new F&B tenants to its Central London estates, signing five new brands to Covent Garden (Sourdough Sophia, Cassette, Soft Serve Society, OAKBERRY Acai, Carmy's) and three to Chinatown (Heytea, Arome Bakery, Kawan).

ENDURING RENTAL GROWTH

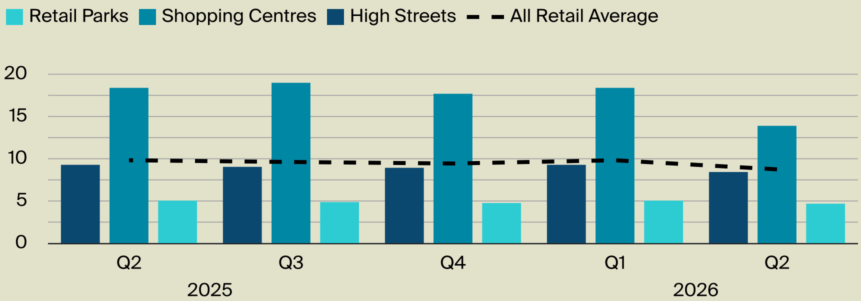
Standard Shops in Central London witnessed rental growth of +1.3% in Q2, with capital values increasing QoQ by +0.4%. This took the rolling annualised figures to +6.9% and +4.6% respectively. Rental growth in the West End (+1.4%) significantly outstripped City & Midtown (+0.1%) and the Rest of London (0.0%). In parallel with this, prime zone A rents on Oxford Street are now at £900/sq ft for the first time since mid-2019.

West End footfall
% change YoY



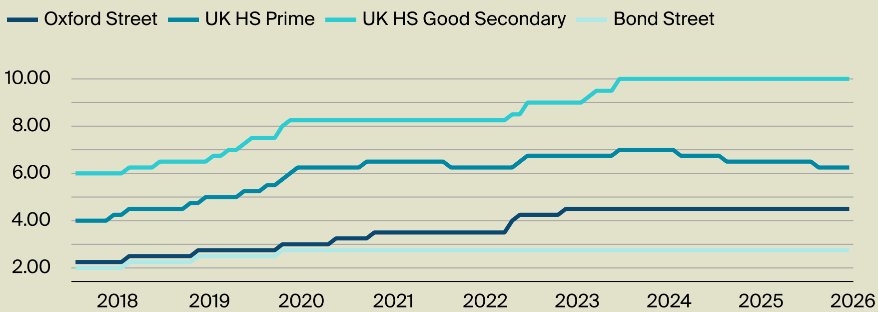
Source: New West End Company

Vacancy rates*
% units
*Greater London



Source: Green Street

Yields
%



Source: Knight Frank

ECONOMIC UPDATE | CAPITAL MARKETS | OFFICES | INDUSTRIAL & DISTRIBUTION | RETAIL & LEISURE | SPECIALIST SECTORS | CONTACTS

Specialist sectors

Data centres, healthcare & life sciences

CONTACT: DATA CENTRES – DARREN MANSFIELD, HEALTHCARE – RYAN RICHARDS,
LIFE SCIENCES – JENNIFER TOWNSEND

Data centres

Increasing AI demand is driving new infrastructure requirements as regulators prioritise deliverable projects

THE END OF THE FIRST-COME-FIRST-SERVED ERA

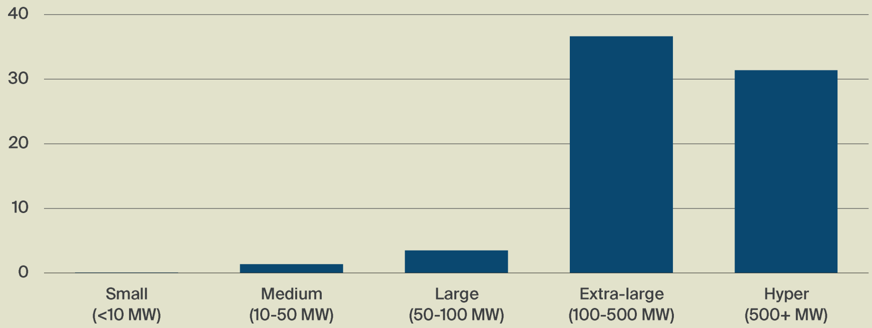
The UK's approach to grid connections is becoming increasingly selective. Last week, Ofgem launched proposals that would require data centre developers to demonstrate project readiness through commitment fees, delivery milestones and evidence of occupier demand. The reforms are designed to reduce speculative activity and prioritise projects capable of being delivered. With data centres accounting for almost 73GW of the UK's 125GW contracted demand queue, regulators are increasingly focused on distinguishing viable schemes from those unlikely to progress. If implemented, developers would need to demonstrate financial capability and secure end-user demand to retain their place in the queue. The reforms signal a shift away from simply securing a grid position and towards proving deliverability, potentially increasing the value of projects that can demonstrate a clear route to energisation.

AI POLICY MOVES UP THE VALUE CHAIN

The first half of 2026 has provided some of the clearest evidence yet that AI is beginning to reshape the UK data centre market. AI occupiers have leased 81MW of capacity year-to-date, with almost 40MW signed during the second quarter alone, while developers are increasingly pursuing large-scale schemes designed specifically for AI workloads. Over the same period, 100MW+ projects have been announced in Middlesbrough and Cambridge, reflecting growing demand for campus-scale infrastructure. Meanwhile, the Government's AI Hardware Plan signals a broader ambition to capture value across the AI value chain, from semiconductor design and photonics to the advanced hardware technologies that underpin next-generation AI systems.

Data centres now account for 73GW of the UK's electricity demand queue

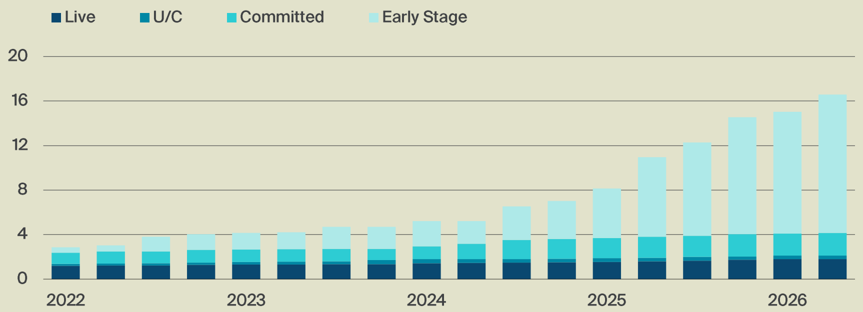
Total data centre demand queue by size band (GW)



Source: Knight Frank Insight, Ofgem

UK data centre capacity reaches 16.6GW

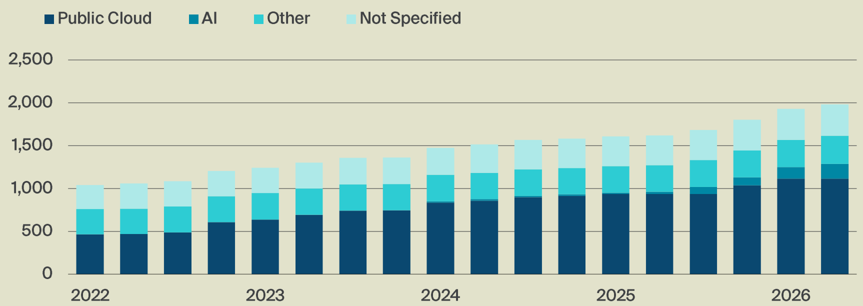
Aggregate supply (GW)



Source: Knight Frank Insight

AI's share of UK lease agreements reaches 9%

Cumulative lease agreements (MW)



Source: Knight Frank Insight

Healthcare

Sentiment builds across healthcare sub-sectors

A QUIETER OPENING, BUT MOMENTUM BUILDING

While we predict another strong year following 2025's record-breaking volumes, the first half of 2026 was relatively subdued. However, deals in progress, alongside others completed in Q3, suggest activity has quickly accelerated. We anticipate volumes will continue to be driven by portfolio and M&A deals, with care platforms looking to expand and new capital seeking market entry opportunities. Fixed-income transactions are holding their own, while the market is becoming less one-sided, with adult specialist and childcare generating increasing wholeco interest. We are also seeing significant activity in the private acute sector, with numerous new platforms being established.

North American capital remains active, alongside strong interest from family offices and private capital looking for mid-market or secondary opportunities with asset management or turnaround potential. This is likely where M&A and portfolio activity will stem from, with further opportunity created by the large volume of M&A that took place last year, as platforms and investors look to integrate recent acquisitions into their existing portfolios, potentially leading to asset carve-outs and disposals.

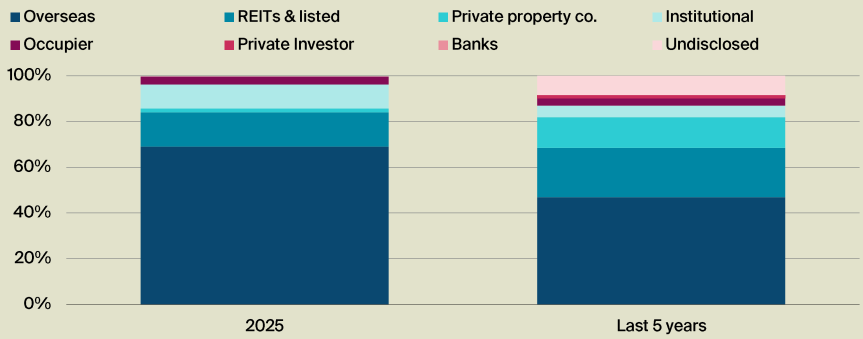
Aedifica has been active following its merger with Cofinimmo, transacting on assets across the UK and Europe. This sits alongside further private hospital transactions from Blue Owl, as well as TPG's acquisition of the European VITL medical office portfolio forming Arcura Medical Properties.

Overall, there is strong sentiment and ongoing interest from new entrants, with further upside from consolidation opportunities. Given the current composition of capital in the sector, multiple deal structures are now possible, from fixed income transactions through to management agreements.

Recorded healthcare property transactions

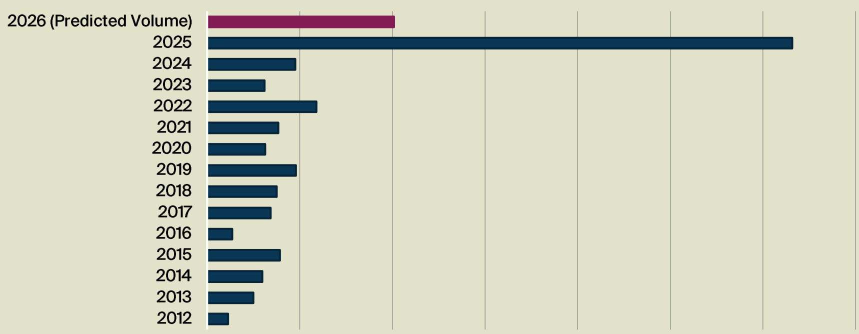
Source: Knight Frank Insight

Healthcare property transactions by buyer type



Source: Knight Frank Insight

Anticipated transaction volume*



*Large portfolio transactions not included in initial predictions

Source: Knight Frank Insight

Healthcare

Anticipated bed deficit still remains a key issue for the sector

OPERATORS DELIVER ON THE FUNDAMENTALS

Our 2025 trading performance analysis, covering around one-fifth of the UK elderly care market, points to further occupancy improvements alongside continued average weekly fee growth. As in previous years, staffing costs as a percentage of income fell in 2025, down to 55.3% from 56.7%, while the all-care average fee grew by around 10% YoY to reach £1,298 per week. We expect this trend to continue as the cost of care keeps rising. Occupancy rates are expected to remain strong, and combined with the above, this should drive a further improvement in operator EBITDARMs, currently averaging 30.1%.

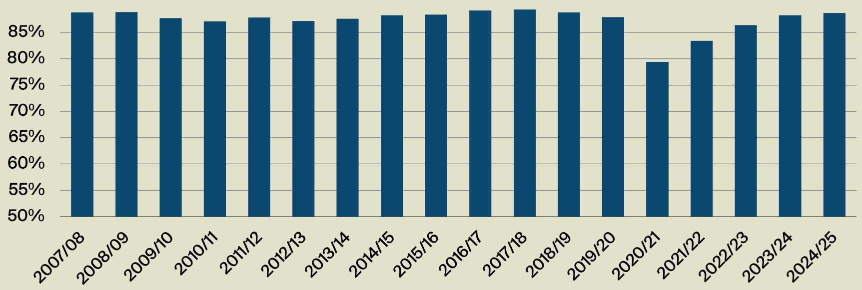
A MARKET STANDING STILL

Since our last review, UK care bed supply has grown by just 136 beds. This modest uplift reflects a combination of period adjustments and more granular analysis, distinguishing newly delivered beds from reopened provision, but it still points to the limited progress being made in addressing future deficits. More strikingly, total bed supply has grown by only 2.4% over the past decade, while the over-65 population has risen by approximately 16.2% over the same period.

There has also been a trend towards higher levels of de-registration over the past five years. Much of this deregistered stock comprises smaller, older homes, which are gradually being replaced by larger, purpose-built facilities. It's worth acknowledging too that improvements in data capture mean bed losses are now more comprehensively recorded than before. Alongside this, we've observed an average regional supply leakage of approximately 2.3%.

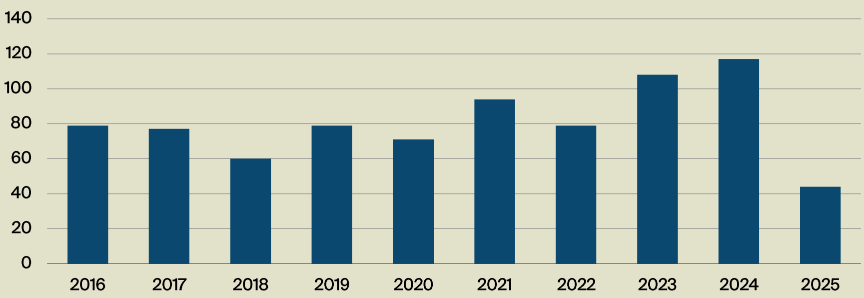
Occupancy

%



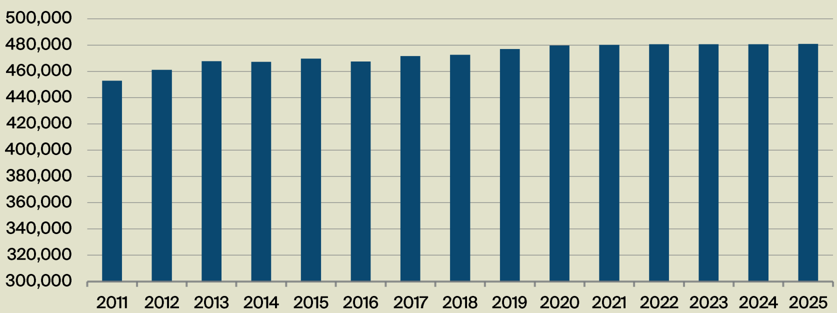
Source: Knight Frank Insight

New UK care homes completed



Source: Knight Frank Insight

Elderly Care Home Beds



Source: Knight Frank Insight

Life sciences

Record venture capital funding, driven by a handful of drug discovery megadeals, is boosting the sector, while supportive policy and devolution are underpinning future growth

VENTURE CAPITAL FUNDING REACHES RECORD HIGH

The funding backdrop for the sector strengthened significantly during the first half of the year. UK life sciences venture capital investment reached a record £3.06bn across 231 deals in H1 2026, up 65% on the same period in 2025. Activity accelerated sharply in the second quarter, rising from £753.7m across 136 deals in Q1 to £2.31bn across 95 deals in Q2. The Q2 total was 206% higher QoQ, 299% higher YoY, and 29% above the previous quarterly record.

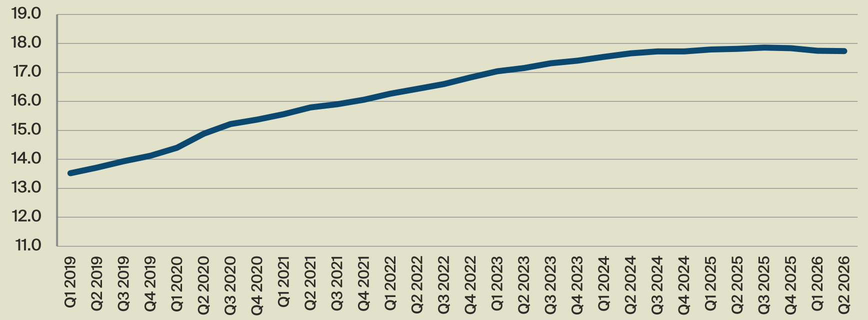
Much of this growth was driven by a small number of larger transactions, particularly in AI-enabled drug discovery. Isomorphic Labs' £1.55bn Series B accounted for 67% of all capital raised in Q2 and just over half of the H1 total, underlining both the transformative potential of AI-enabled drug discovery and the distorting effect of exceptional megadeals. This concentration was also evident in Q1, when the 10 largest transactions accounted for 75.9% of disclosed investment.

POLICY, DEVOLUTION AND STRATEGIC INVESTMENT

The policy backdrop is increasingly supportive, with initiatives focused on innovation, commercialisation and regional growth expected to support future occupier demand. This is reflected in more than £3bn of new life sciences investment over the past year, a plan targeting 66,000 additional sector roles by 2035 and government backing for high-growth businesses through the Sovereign AI Fund and British Business Bank.

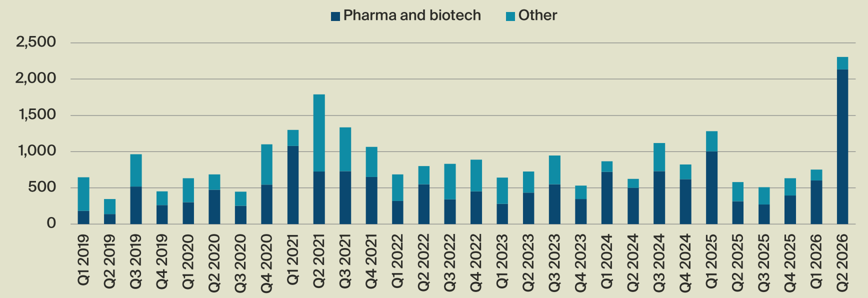
Devolution will give regions more control over innovation funding, skills, infrastructure and investment through the Greater Cambridge Development Corporation and additional mayoral powers.

Number of active UK life sciences companies
Thousands



Source: Knight Frank Insight, Beauhurst

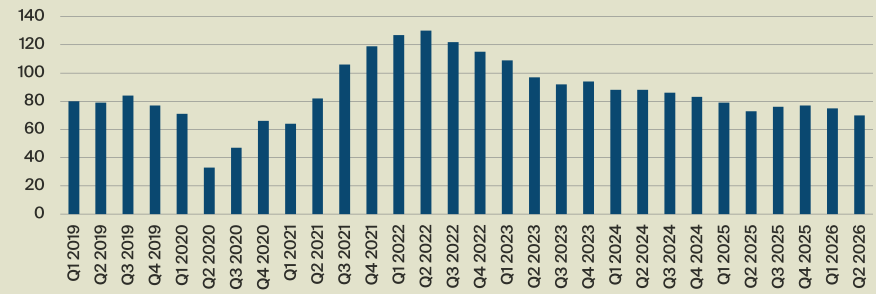
UK life sciences venture capital funding
VC funding into UK life sciences companies, £m



HQ only. Completed deals and full transactions only. Covers: Biopharma, MedTech and Digital health. Data as at 12/07/2026. The data in PitchBook is continuously updated to reflect the most current information. As a result, historical data may change over time.

Source: Knight Frank Insight, PitchBook

Vacancies: professional, scientific and tech
Thousands



Source: Knight Frank Insight, ONS

Life sciences

Golden Triangle leasing reached a record H1 as London rebounded in Q2, while £160m of investment and a substantial development pipeline signal continued confidence

LONDON LEADS LEASING ACTIVITY IN Q2

Science and innovation leasing across the Golden Triangle of London, Oxford and Cambridge reached 151,182 sq ft in the second quarter of 2026.

Although take-up was 35.6% below the 234,779 sq ft recorded in Q1, activity during the first half of 2026 totalled 385,961 sq ft, 7.2% ahead of the same period in 2025 and a record H1. Oxford and Cambridge contributed 290,834 sq ft across 18 deals, representing 75.4% of Golden Triangle activity.

London recorded 73,027 sq ft of life sciences take-up in Q2, more than three times the 22,100 sq ft transacted in the previous quarter. The capital accounted for 48.3% of total Golden Triangle activity, compared with just 9.4% in Q1. The Knowledge Quarter remained the preferred destination for science and innovation occupiers, accounting for 5 of the 8 deals in Q2. The quarter's largest London transaction saw robotics company Humanoid take 40,000 sq ft of lab-enabled space at 1 Triton Square. Cultivated-meat company Meatly also leased 11,000 sq ft at Victoria Industrial Estate in North Acton.
Oxford recorded 42,076 sq ft of take-up during Q2, broadly in line with the 45,990 sq ft transacted in Q1. The largest deal saw quantum technology company Infleqtion take 20,000 sq ft of tech box space at Oxford Technology Park. Oxford Vaccine Group also leased 10,748 sq ft of fully fitted laboratory space at Studio Labs, Trinity House, ARC Oxford.

Cambridge recorded 36,079 sq ft in Q2 after a record 166,689 sq ft in Q1, which was driven by a few larger deals. Q2 transactions included the Royal Society of Chemistry's 17,000 sq ft office letting at 334 Cambridge Science Park and HUBER+SUHNER Polatis's 9,000 sq ft letting at 332 Cambridge Science Park.

Activity remained concentrated, with the three largest Oxford and Cambridge transactions accounting for 55% of H1 take-up. However, six of the nine deals completed in Q2 were below 10,000 sq ft, illustrating the continued depth of demand for smaller units.

The product mix illustrates the breadth of occupier requirements. Tech box space accounted for 34.9% of Oxford and Cambridge take-up during H1, followed by lab-enabled space at 32.4%, fully fitted laboratories at 21.6%, and offices occupied by life sciences businesses at 11.1%. In London, fully fitted labs accounted for 53.8% of take-up and lab-enabled space for 23.1%.

INVESTMENT VOLUMES TOTAL £160M IN Q2

On the capital markets side, the acquisition of Life Science REIT gives British Land full ownership of five innovation-led assets across the UK's Golden Triangle. These include Rolling Stock Yard and 7–11 Herbrand Street in London's Knowledge Quarter, Oxford Technology Park, and Cambourne Park and the Merrifield Centre in Cambridge. In North Cambridge, Investec Realis and developer Wrenbridge acquired an industrial site on Cowley Road from Coulson Building Group. The partnership plans to deliver 80,000 sq ft of commercial space. Beyond the Golden Triangle, Maven Capital Partners completed the final disposal from its Paradigm Portfolio, selling four properties at Nova Technology Park, north of Glasgow city centre.

Meanwhile, 2.89m sq ft of laboratory and innovation space is currently under construction across the Golden Triangle through to 2028.

Key contacts

Offices

Retail

Logistics & Industrial

Healthcare

Life Sciences

Data Centres

Student Property

Automotive

Capital Markets

Valuation & Advisory

Debt Advisory

Restructuring & Recovery

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