

The background of the page features a stylized financial chart with a grid of dashed lines. The chart is composed of vertical bars and lines in shades of blue, green, and purple. A solid purple horizontal bar is positioned above the main title. The overall aesthetic is modern and data-driven.

RICS Property Investment

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Introduction

The June 2026 Property Investment Forum served as a mid-year review of market conditions, held shortly after the escalation of the Iran conflict. The prevailing mood was one of caution rather than alarm. Several contributors described a market defined by resilience and selectivity, with a K-shaped divergence between the best assets and the rest running through occupier demand, debt availability, investment activity, and valuations alike.

Macroeconomic outlook and interest rates

UK growth forecasts have been marked down by a quarter to half a percentage point since the start of the year, with most forecasters now clustered around 0.5 to 1 per cent for 2026. The downshift is linked primarily to the Middle East conflict and its effect on energy costs.

Consumer spending continues to grow modestly, but fiscal policy is acting as a drag on growth in both 2026 and 2027. Claims of UK productivity improvement were treated with scepticism; where gains are visible, they appear concentrated in lower-paying sectors, likely reflecting the squeeze on employment from additional taxes rather than any structural step change.

Headline inflation is expected to move towards 4 per cent over the coming months. Gas prices, which matter more for UK inflation than oil, have remained sticky. The money market is pricing two rate rises by next spring, but there was a degree of consensus that the Bank of England would try to see through the inflation increase rather than deliver on what the market expects. Gilt yields have underperformed, with the ten-year gilt-bund spread at around 200 basis

points, double the thirty-year average. This was attributed to inflation rather than political risk, though political risk was flagged as a factor that could yet make things worse.

Occupier markets

Occupier activity was described as resilient and, in prime segments, remarkably so. In central London, 4.7 million square feet was under offer at the end of the first quarter, the highest figure recorded in decades. More than 30 requirements above 100,000 square feet are active, including approximately one million square feet from AI-related businesses. Net absorption is at a twenty-year high. Development appraisals are under severe cost pressure, and the argument was made that prime rents in major gateway cities cannot fall unless construction costs experience outright deflation. The regional office market is playing catch-up on rents, but the economics of new development remain extremely difficult; refurbishment is expected to dominate.

In grade A logistics, first-quarter take-up was 20 per cent above 2025, driven by Chinese e-commerce businesses pushing for direct-to-consumer distribution, alongside reshoring, advanced manufacturing, and defence-related demand. The multi-let market faces more pressure, with smaller businesses sensitive to the combined burden of rents, rates, and running costs. Proposed rent review legislation, now applying across all commercial sectors, is expected to benefit landlords in strong markets through fixed increases, but to drive shorter leases and product innovation elsewhere.

AI and the shape of demand

Several participants described a step change in how businesses are engaging with AI over the past three months. Senior executives are now grasping the potential of agentic AI to transform processes within weeks rather than years. One contributor reported hiring falling from a typical 50–60 annually to around 10, with offshore teams expected to shrink materially, not because the business is contracting but because process-based roles are being removed. The need for the best people to be physically together in prime space is, if anything, intensifying. The net effect may reinforce the K-shaped dynamic: stronger demand at the very top, and a much harder outlook for everything below it.

Debt markets and investment activity

Debt markets paused briefly around the Iran escalation but have recovered. Activity is led by refinancing rather than acquisitions. All-in debt costs are 70 to 100 basis points higher than three months ago, with five-year swaps at 4.2 per cent, but spreads continue to compress for prime assets. The K shape is stark: a stabilised City office at 55 per cent LTV attracted 15 bids in the low-hundred margins; a sub-investment-grade single-tenant asset at 50 per cent LTV drew two bids above 400 basis points. Conditions are expected to improve towards the fourth quarter.

The investment market has slowed but not stopped. Deals in due diligence are proceeding with price chips of 1 to 5 per cent. Some global investors, including certain large sovereigns, have placed the UK on pause. Above 100 million pounds, the buyer pool narrows sharply. Where equity processes have disappointed, there has been a pivot to debt solutions and recapitalisations. Real estate secondaries are growing fast, and M&A activity is expected to pick up. In digital infrastructure, 7 trillion dollars of global capital expenditure is expected over the next four years, though the UK's high-power costs are directing capital towards the Nordics.

Valuations and outlook

Capital values have been broadly flat, with the office sector outside central London down around 1 per cent year-to-date. A 100-basis-point shift in expected base rates ought, in theory, to be translating into capital value declines, but transaction activity has held up enough to support current levels. The index is expected to soften in the second half, led by offices, though no cliff-edge repricing is anticipated. In public markets, European real estate remains the most under owned equity sector globally, trading at the lowest growth multiple of any sector. UK names are pricing in more yield expansion than continental peers despite stronger rental growth, weighed down by the gilt-bund spread.

A recurring theme was event fatigue. After taxes, trade wars, conflict, AI disruption, and COVID, businesses and investors are getting on with it. One contributor drew a comparison with the later stages of the financial crisis, when weariness with bad news gave way to renewed activity. The start-of-year optimism around price discovery has been pushed back by roughly a year, but the consensus was that the second half of 2026, and the fourth quarter in particular, could see conditions improve materially if geopolitical tensions ease and the Bank of England hold rates.

John Gellatly, Chair

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