Lambert Smith Hampton

LOGISTICS LOWDOWN

Q2 2026

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ECONOMIC BACKDROP

NAVIGATING VOLATILITY

While the economic outlook has become more uncertain amid geopolitical tensions and domestic political change, policymakers are maintaining a wait-and-see stance on interest rates.

AT A GLANCE

GDP(Q/Q)	CPI	BANK RATE	RETAIL SALES (Y/Y)	UNEMPLOYMENT RATE
0.6%	2.6%	3.75%	+3.2%	4.9%
Q1 2026	JUN 2026	JUN 2026	MAY 2026	MAY 2026

Source: ONS, Bank of England

VOLATILITY AT HOME AND ABROAD

The breakdown of the US-Iran truce has underscored the fragility of the Strait of Hormuz, keeping oil prices volatile as markets react to shifting prospects for further escalation or renewed diplomatic efforts. At home, despite the UK's sixth change of prime minister in a decade, markets have responded calmly to the swift leadership transition. While Andy Burnham's priorities of devolution and reindustrialisation could support the industrial sector, suggestions to increase warehouse business rates may weigh on sentiment.

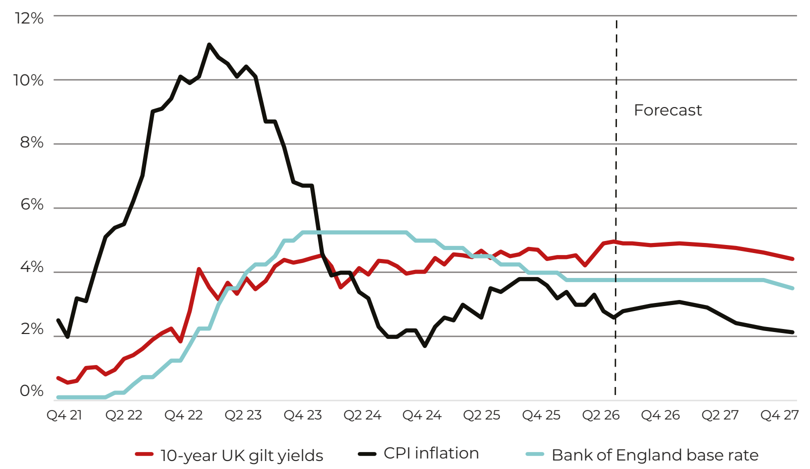
RESILIENT IN FACE OF HEADWINDS

Though unremarkable, UK growth has been more resilient than expected, with May's GDP growth of 0.1% beating consensus for the third time in four months. Households continue to defy the gloom, with robust retail sales fuelled by hot weather and the World Cup. The manufacturing PMI has remained in expansionary territory, reflecting resilience but also firms bringing forward activity and stockpiling amid supply chain disruptions and expected price increases. Momentum is therefore likely to soften in the months ahead, while ongoing disruption through the Strait of Hormuz remains a headwind, with a softer second half of the year anticipated.

INFLATION EXPECTATIONS MODERATE

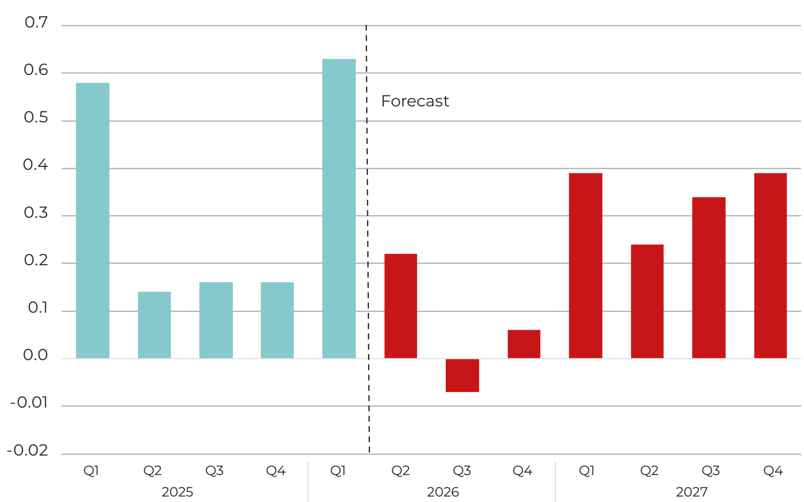
Inflation expectations continue to shift alongside geopolitical developments, but the outlook is less severe than feared earlier in the year. CPI inflation fell to 2.6% in June, while peak forecasts have receded from above 4% to around 3.2%, with July's 13% increase in the energy price cap kickstarting the climb. The MPC held the Bank Rate at 3.75% in June and is expected to remain cautious. Markets are awaiting clarity on the new government's fiscal plans. Against this backdrop, gilt yields remain elevated, with the 10-year gilt yield touching 5% mid-July.

UK INFLATION, BASE RATE & GILT YIELD (%)



Source: ONS, Oxford Economics

UK GDP GROWTH FORECAST (% Q-ON-Q)



Source: ONS, Oxford Economics

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OCCUPIER MARKET SNAPSHOT

DRIVING ONWARDS

The UK occupier market has remained resilient amid macroeconomic headwinds. The strained geopolitical environment is also supporting demand drivers such as onshoring, higher inventory holding and increased defence investment.

AT A GLANCE

Q2 TAKE-UP	Q2 TAKE-UP	Q1 SUPPLY	SPEC (U/C)	PRIME RENTAL GROWTH
10.7M SQ FT	+6% VS Q1 2026	+4% Y-ON-Y	9.7M SQ FT	+3.7% Y-ON-Y

MOMENTUM CONTINUES DESPITE HEADWINDS

Despite ongoing uncertainty, the momentum seen in the UK occupier market at the start of the year continued to build. For units of 50,000+ sq ft, UK-wide take-up reached 10.7m sq ft, up 6% q-on-q. The number of deals also rose by 8% q-on-q, reaching its highest level since Q3 2022. A significant level is under offer, boding well for H2.

The XL segment (250k+ sq ft) was the strongest performer relative to its five-year pre-pandemic average, with take-up increasing 26% q-on-q. Mid box also recorded a strong quarter, with take-up surging 33% to its highest level since Q2 2023. Regionally, the East Midlands continued to lead the market, with Q2 take-up 39% above its pre-pandemic average. Following a subdued Q1, the South West rebounded sharply, emerging as the second-strongest region, with take-up 32% above trend.

NEW BUILD SUPPLY CONTRACTS

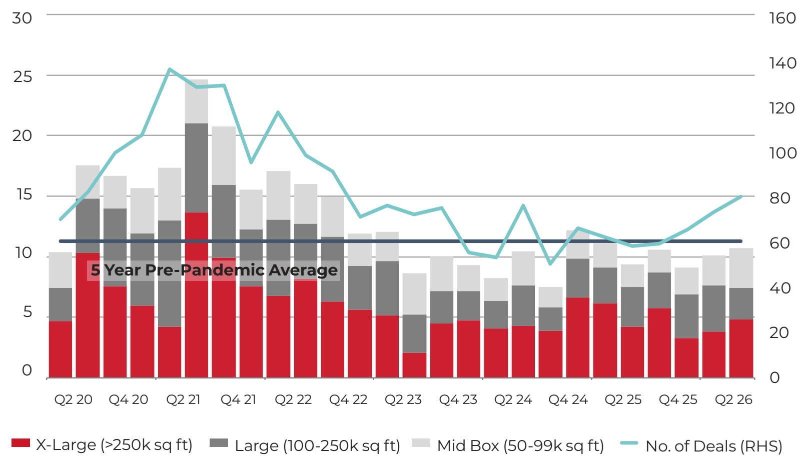
UK-wide supply continued to plateau in Q2, rising by just 1% q-on-q. As expected, new spec build supply fell by 4%, offset by an increase in secondhand and refurbished space.

Despite market uncertainty, the volume of spec starts increased 23% q-on-q, supported by four XL units, while the number of starts fell 29%. This lifted spec development under construction to 9.7m sq ft, up 8% since the start of the year but still 60% below the 2022 peak. However, reflecting build cost inflation and land cost pressures, the pipeline is thinning.

RENTAL GROWTH GATHERED PACE

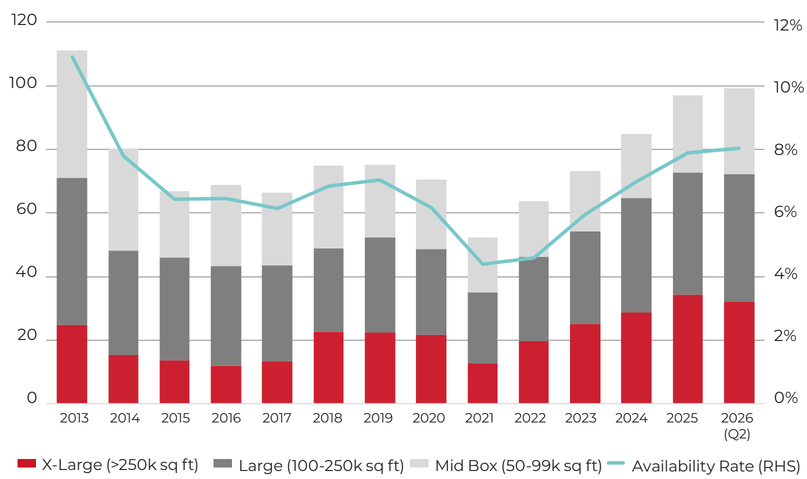
The pace of rental growth accelerated in Q2, with average prime rents across the UK's 60 key markets increasing by 3.7% over the year to Q2, up from 3.3% in Q1. In addition, 17 markets recorded growth in Q2, up from 12 in Q1. Despite elevated uncertainty, tightening new build supply is driving upward pressure on prime rents.

UK TAKE-UP BY SIZE BAND (M SQ FT)



Source: LSH Research

UK AVAILABILITY BY SIZE BAND (M SQ FT)



Source: LSH Research

OCCUPIER MARKET: LSH KEY DEALS

ACQUISITIONS

LONGBRIDGE, WARWICK

29.43 site acquisition on behalf of PLP for 440,000 sq ft of speculative development.

FRADLEY PARK, LICHFIELD

437,000 sq ft acquisition on behalf of M&S (assignment).

DISPOSALS

B295, BURTON UPON TRENT

294,889 sq ft disposal on behalf of Gousto (assignment) to Waterstones.

UNIT 3 VGP PARK, J24 M1

256,258 sq ft pre-let disposal on behalf of VGP to Games Workshop.

OCCUPIER MARKET: KEY MARKET TRANSACTIONS

PROPERTY	MARKET	SIZE (SQ FT)	DEAL TYPE	RENT/PRICE (PSF)	OCCUPIER
MPN5, Magna Park North	Lutterworth	761,316	Let (New Spec)	£10.00	Bleckmann
Rugby 673	Rugby	673,270	Let (Refurbished)	£9.85	ID Logistics
S545 Panattoni Park Swindon	Swindon	545,414	Let (New Spec)	£13.00	MoD
Derby 507 Infinity Park Derby	Derby	507,503	Let (New Spec)	£9.00	Ceva
OXW 327, Trafford Park	Manchester	327,000	Let (Refurbished)	£9.00	Online Home Shop (OHS)
SPC 140, Segro Park Coventry	Coventry	139,815	Let (New Spec)	£10.25	Gigacloud

CAPITAL MARKETS UPDATE

SCALED UP

While portfolios drove a slight pick-up in industrial volume in Q2, a sharp drop in deals reflects fragile sentiment.

AT A GLANCE

Q2 VOLUME	Q2 VOLUME	Q2 NO. OF DEALS	ACHIEVED QUOTE PRICE +	PRIME YIELD
£1.5BN	+8% VS Q1 2026	50	27% OF Q1 DEALS	5.00%

DISTRIBUTION DELIVERS

At £1.5bn, Q2 industrial investment rose 8% q-on-q but remained 35% below trend. Q2 was quiet for transactions, with 50 deals down from 92 in Q1 and amongst the lowest on record. Large-scale deals were therefore key, with Q2's average lot-size of £32m the third largest on record.

Distribution warehouses drove Q2's overall improvement, with volume of £982m almost double Q1's eight-year low. This was underpinned by two major portfolio deals, the largest being IGC's £201m (5.26% NIY) purchase of the Springbox Portfolio from Equites.

Given healthy demand for reversionary assets, subdued Q2 activity in the multi-let space reflected a lack of stock. South East industrials were especially subdued in Q2, with volume of £126m the lowest.

NORTH AMERICA DOMINANT

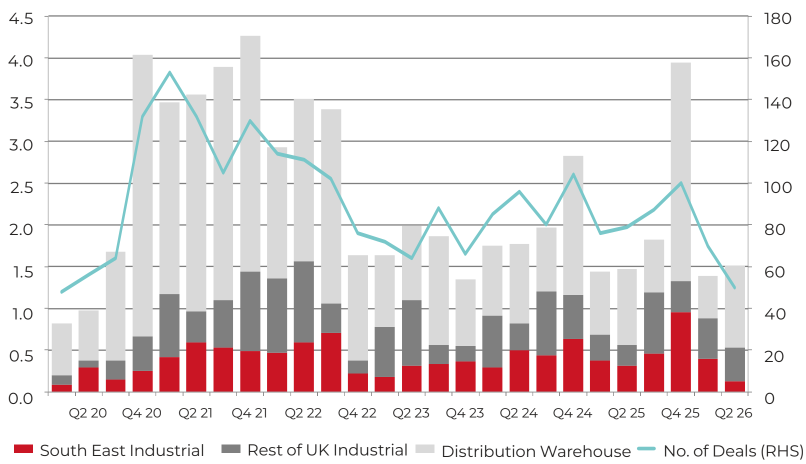
Overseas inflows climbed 16% q-on-q to £1.0bn in Q2. While 18% below trend, overseas remain the main source of capital, accounting for 69%. North America represented 75% of inflows, while European derived investment of £281m was 21% above trend.

Domestically, institutions remained net sellers, with acquisitions of £179m against disposals of £304m. Schroders was notably acquisitive, acquiring four assets for close to £100m, while REITs were the largest net sellers, led by Tritax Big Box REIT's £199m portfolio disposal.

YIELDS HOLD FOR NOW

While notional prime yields held steady in Q2, geopolitical tensions and financial market volatility have placed upward pressure on pricing. However, with little distress in the market, vendor appetite to sell core income assets is relatively thin, making transactional evidence hard to come by.

UK INDUSTRIAL INVESTMENT VOLUME (£BN)



Source: LSH Research, MSCI RCA, PMA

PRIME YIELDS	END Q2 2026	3 MONTH CHANGE (BPS)	12 MONTH CHANGE (BPS)
South East Estates	5.00%	0	0
Rest of UK Estates	5.25%	0	0
Distribution Warehouses	5.00%	0	0
TRANSACTION YIELDS	**Q2 2026**	**3 MONTH CHANGE (BPS)**	**12 MONTH CHANGE (BPS)**
South East Industrials	5.45%	-14	32
Rest of UK Industrials	6.04%	-80	-71
Distribution Warehouses	5.30%	-45	-12
ALL INDUSTRIAL	**5.49%**	-33	3

Source: LSH Research, MSCI RCA, PMA

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CAPITAL MARKETS: LSH KEY TRANSACTIONS

ECLIPSE CENTRE, BUCKLEY ROAD, ROCHDALE

On behalf of Headlam Group PLC, LSH disposed of a single-let unit in Rochdale to EQT Exeter on a 2 year sale and leaseback. Comprising 115,816 sq ft, the unit was sold for £8.00m reflecting a NIY of 10.07%.

DABEL HOUSE, NOTTINGHAM & MCD HOUSE, ROCHESTER

On behalf of Headlam Group PLC, LSH disposed of two units in Nottingham and Rochester on a sale and leaseback and vacant basis respectively. The units total 145,586 sq ft and were sold to Clearbell for £7.55m.

CAPITAL MARKETS: KEY MARKET TRANSACTIONS

DISTRIBUTION WAREHOUSES

PROPERTY	WAULT (YEARS)	TENANT	PRICE (£M)	NIY	DATE	VENDOR	PURCHASER
Bedfont Logistics Park, Feltham	4.90	Various	138.60	3.45%	Jun-26	Blackstone	Hines
Max Park, Corby	3.14	Various	118.00	4.49%	May-26	Perland Properties	Smyths Toys
G Park, Swindon	10.80	B&Q Plc	53.80	5.65%	Jun-26	Ares	Copley Point / Sixth Street
Park Spring Road, Barnsley	8.25	Symphony Group Plc	41.19	5.98%	Apr-26	Surrey County Council	Conf.
B1 Infinity Park, Derby	15.00	DHL Supply Chain	32.00	5.66%	Apr-26	Wilson Bowden / Peveril Securities	Catalyst Capital

MULTI-LET

PROPERTY	WAULT (YEARS)	RENT (PSF)	PRICE (£M)	NIY	DATE	VENDOR	PURCHASER
Radial Park & Mammoth Drive, Birmingham	9.93	£8.68	48.25	4.01%	Jun-26	IPIF	Schroders
Cathedral Hill Industrial Estate, Guildford	4.10	£19.30	39.10	4.35%	Jun-26	Savills IM	Schroders
Erdington Industrial Estate, Birmingham	3.40	£8.33	29.00	4.95%	May-26	Vengrove	Indurent
Trackside Business Centre, West Byfleet	2.20	£14.58	16.10	5.55%	Apr-26	Hermes IM / Schroders	Clearbell
1-5 MXL Centre, Banbury	7.10	£7.34	14.20	5.56%	Apr-26	Hermes IM / Schroders	Clearbell

PORTFOLIO

PROPERTY	WAULT (YEARS)	NO. PROPERTIES	PRICE (£M)	NIY	DATE	VENDOR	PURCHASER
Springbox Portfolio	9.90	5	200.50	5.44%	May-26	Equites Property Fund	ICG Real Estate
Tritax Portfolio	6.90	7	199.00	5.65%	May-26	Tritax BBOX REIT	EQT Exeter
Project Sheem	4.20	34	116.60	7.35%	May-26	Colombia Threadneedle	GoldenTree AM
Indurent Portfolio	4.70	169	55.40	5.75%	May-26	Indurent	Clear Sky
EQT/GIC Portfolio	2.50	3	52.00	6.25%	May-26	EQT / GIC	ICG Real Estate

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