THE CHANNEL ISLANDS OFFICE MARKET REVIEW 2026

D2 REAL ESTATE

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2026

FOREWORD

"PARADOXICALLY, THE UK AND CHANNEL ISLANDS' OCCUPATIONAL MARKETS ARE BOOMING, CREATING THE WIDEST DISLOCATION BETWEEN LEASING AND INVESTMENT ACTIVITY IN ALMOST 30 YEARS."

This tenth edition of our annual research report also marks a decade since my own arrival in Jersey. It has been a period that has delivered more than its share of rewarding business opportunities. However, reflecting on another strong year for D2, I know I am not alone in feeling some apprehension going forward. Just a year into his tenure, Trump has upended the geopolitical landscape and shaken the foundations of the global economy. What comes next is, let's be honest, anyone's guess.

So, it's perhaps unsurprising the investment market has struggled to find its rhythm in 2025. Buyers and sellers bided their time, resulting in arguably no prime investment sales in the UK regions. Here in the Channel Islands the investment market has also been muted, albeit with some cause for future optimism - the inflationary outlook is down, interest rate reductions are expected, and bank margins have come in. However, the economy still looks fragile so while there may be more activity, I don't foresee investment volumes breaking any records.

Paradoxically, the UK and Channel Islands' occupational markets are booming, creating the widest dislocation between leasing and investment activity in almost 30 years. While international events have stymied development, occupiers have typically figured out their occupational requirements and hybrid working, with investment priorities including staff and ESG. As they compete for quality space in an under-supplied market, best-in-class rents have soared, a pattern mirrored in Jersey, which ultimately should bolster investor confidence.

Looking to 2026, and the imminent completion of several large lettings, I anticipate more investment activity, albeit with one caveat – we have recently seen abortive sales or price renegotiations due to poor management. With purchasers scrutinising every aspect on sale, gone are the days of a basic building survey. I cannot over-emphasise the importance of being on the front foot, particularly in a small market like the Channel Islands.

This report explores the effects of the above themes on the UK and Channel Islands property markets. It consolidates our data, insight and intuition to examine the lessons of 2025, and how, with due allowance for the Washington X-factor, these might shape the market's future direction of travel.

PHIL DAWES
Managing Director | D2 Real Estate

UK ECONOMY

Despite the various headwinds, the UK economy has shown modest growth, with the latest Office for Budget Responsibility (OBR) forecast suggesting 2026 GDP growth of 1.5%.

However, long-term debt sustainability - fuelled by increased defence spending, shifting demographics and climate transition - remains concerning. Coupled with forecasted slowing wage growth and rising unemployment, economic fragility is expected to increase. Fiscal drag from frozen tax thresholds is also likely to constrain consumer spending. In consequence, BNP PRE forecasts a drop in 2026 GDP to 1.1%. Beyond 2026, higher taxes are likely to subdue household spending, as recognised within recent OBR forecasts.

REAL GDP GROWTH AND FORECAST

Source: ONS, OBR

Source: ONS, OBR

As a much-needed silver lining, inflation is moderating, with headline CPI expected to meet the 2% target by spring 2026. The Autumn Budget's energy bill support and fuel duty freeze are expected to lower inflation by 40 basis points in 2026-27. Against this backdrop, the Bank of England has further cut the base rate to 3.75%, as forecasted by BNP PRE 12 months ago. This rate cutting cycle is widely expected to continue, settling at 3.25% by the year end.

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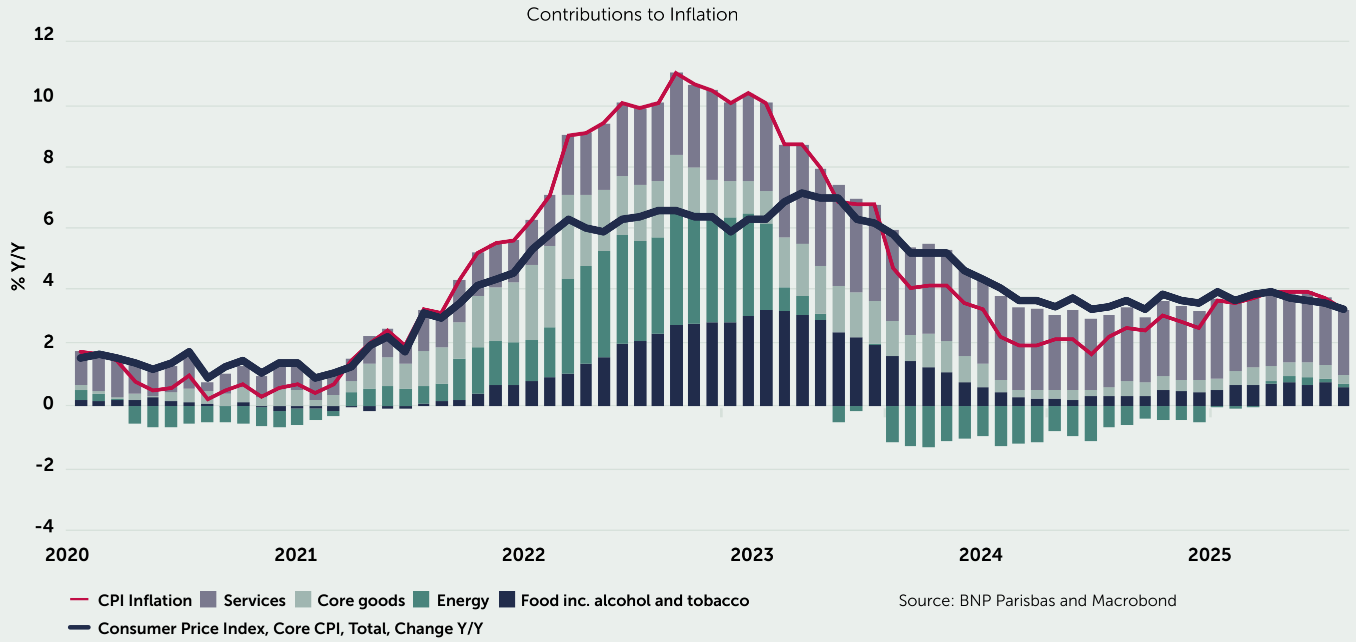
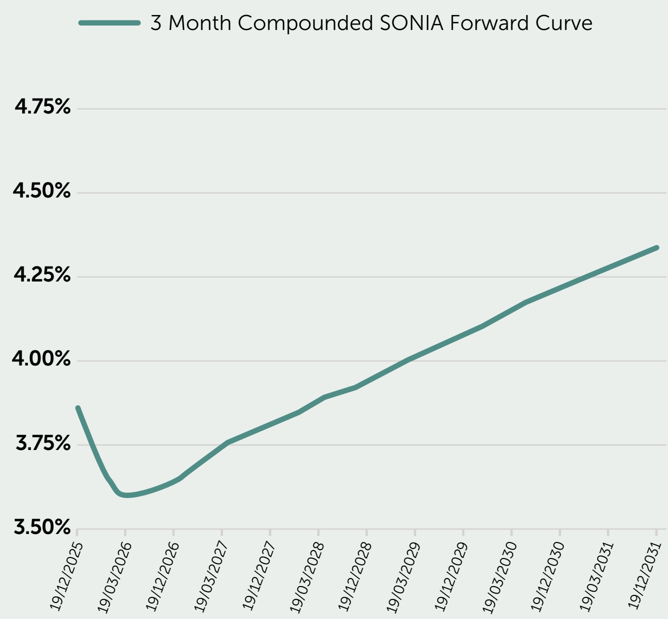


Source: BNP Parisbas and Macrobond

3-MONTH SONIA COMPOUNDED FORWARD CURVE



Source: Chatham Financial (Jan 2025)

In summary, while confidence can be drawn from modest growth in the UK economy and falling inflation and interest rates, significant geopolitical uncertainty remains. In an increasingly febrile world, investors will no doubt continue to adopt cautious approach.

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KEY STATS 2025

3.75%
Base rate Jan 2026 v's **4.75%** Jan 2025 (Bank of England)

3.2%
CPI Dec 2025 v's **3.5%** Dec 2024 (ONS)

4.5%
UK 10-year Gilt rate Dec 2025 v's **4.54%** Dec 2024 (FT)

1.3%
UK GDP growth Q3 2024 to Q3 2025 (ONS)

3.25%
Base Rate Prediction December 2026 (BNP Paribas Real Estate)

SONIA Forward Curves:
Jan 2026 **3.71%**
Jan 2027 **3.37%**
Jan 2028 **3.49%**
(Chatham Financial)

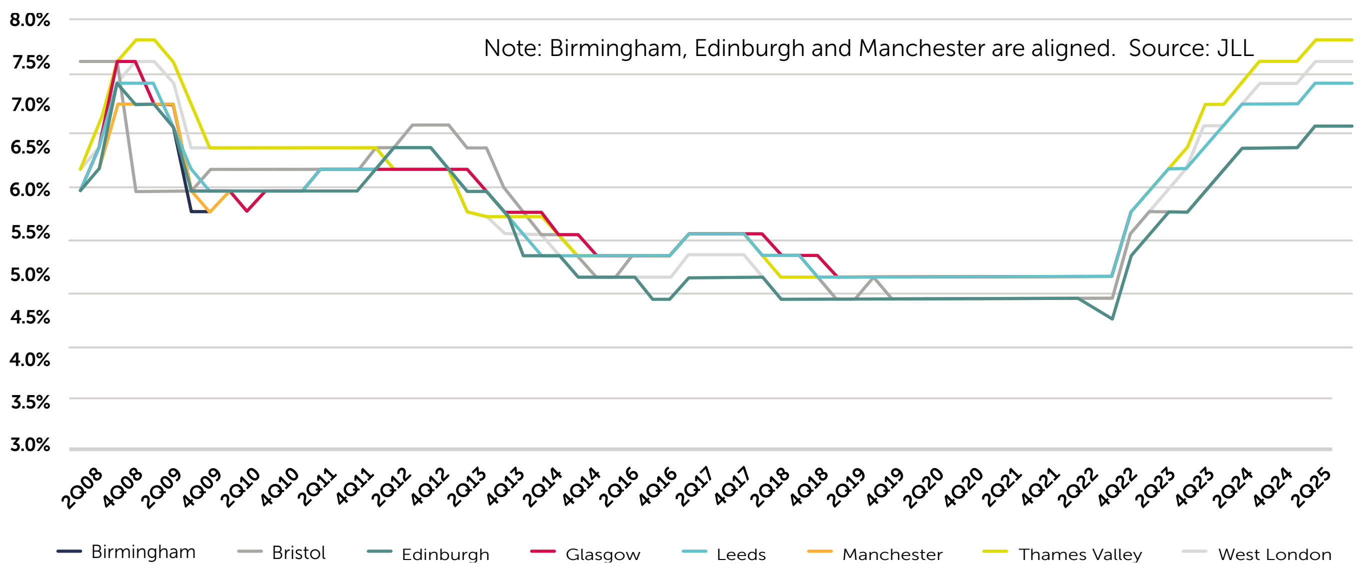
UK INVESTMENT MARKET

Last year's report offered a prescient insight - "…the President elect is nothing if not difficult to second-guess". With this prediction swiftly validated in 2025, and despite material interest rate cuts, investors' mantra has very much been "wait and see".

Regardless, the regional office investment market has shown some activity. Volumes reached £286m in a cautiously optimistic third quarter, for year-to-date investment of around £993m, 8.1% up on the same period in 2024. However, this remains 55.2% below the ten-year average, underscoring the market's ongoing recalibration.

We've also seen the widest dislocation between leasing and investment activity in almost 30 years. New development starts are limited, constraining the supply of high-quality stock. The occupational market is transitioning from a period of downsizing to one of expansion, particularly within the professional services sector. Grade A vacancies across the Big Ten cities averaged just 2.4% in Q3, down 29 basis points over six months, reflecting strong demand and limited new completions. This imbalance is fuelling rental growth. Prime rents rose 6.5% in Q3 alone, with year-end growth forecast to approach 9.0%. Bristol led the market with prime rents at £50 per sq ft, with Birmingham expected to surpass this by year-end. Leeds topped the field in rental growth at 17.9%, reaching £46 per sq ft. We expect this rental growth story to fuel investor appetite. (source BNPP)

However, these returns reflect "prime" assets, the definition of which has narrowed with fewer meeting the criteria. 2025 has seen minimal investment sales, with very few, if any, "prime" assets, traded. Certainly, none compared to the likes of EQ and The Mint we referenced last year. 121 Winterstoke Road, Bristol (83,394 sq ft) sold in September 2025 for 6.75%, but this was more of an income play given the long lease with indexation as the building was constructed in 2013.



Additionally 27 Fleet Street & 65 Lionel Street, Birmingham, a mixed-use building with offices and hotel, traded for £53m 7% (source JLL). Going forward, the key deal is the sale of 4 Angel Square, Manchester (which we have tracked over the years - see our 2024 publication "A tale of two cities") quoting 6.5%. This will test market sentiment and aid price discovery in the coming months.

As the transactional evidence focuses on higher-yielding, core plus assets it is unsurprising that private property companies and family offices remain the market's most active buyers, with 29.7% share of investment year to date. Encouragingly, overseas investment also increased, comprising 27.9% of total Big Ten investment on a rolling 12-month basis. French SCPI's remain a key source of capital. (source BNPP).

Concluding on a positive note, the occupational market remains resilient, with high-quality, amenity-rich, ESG-compliant spaces in strong demand, and a growing appetite for larger floorplates. This is expected to support further rental growth, bolstering investor confidence into 2026.

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THE CHANNEL ISLANDS INVESTMENT MARKET

A similar theme is emerging in the Channel Islands. Despite a busy end to 2024, transactions post-May 2025 have been minimal.

Completed deals have revolved around shorter term lease profiles, with yield trajectories marginally downward. What remains untested is one of the larger assets such as the International Finance Centre, let on long leases.

For example, in May 2025 29 Seaton Place, a multi-let property with a relatively short WAULT to expiry of two years, sold for £8m, reflecting a yield of 7.66%. This followed the sales of Charter Place (£12.5m) and 1 Seaton Place (£6.8m), reflecting yields of 7.84% and 7.75% respectively in November and December 2024.

The scarcity of transactions may speak less to low interest in the investment market, and more to a booming rental market reducing the incentive to sell. However, as our report examines later, lettings can take years to sign and crystalise value. The local investment market therefore comes in waves, potentially making 2026 a busier year as some key lettings near completion.

But where are the buyers coming from? Recently the Channel Islands has seen an influx of high-value residents relocating from the UK, fleeing Labour's punitive taxes on companies and individuals. 2025 saw record applications approved, and anecdotally 2026's pipeline already looks robust. Importantly, new residents are economically active. They are encouraged to contribute to island life, make a social difference and invest locally. The commercial property market has accordingly benefitted. Many new residents have commercial property interests elsewhere, and understand the sector. Jersey also boasts an established network of entrepreneurs, bringing value to the economy and sector.

Indicative CGI illustrating the proposed refurbishment and new facade of **17a-18 Esplanade**.

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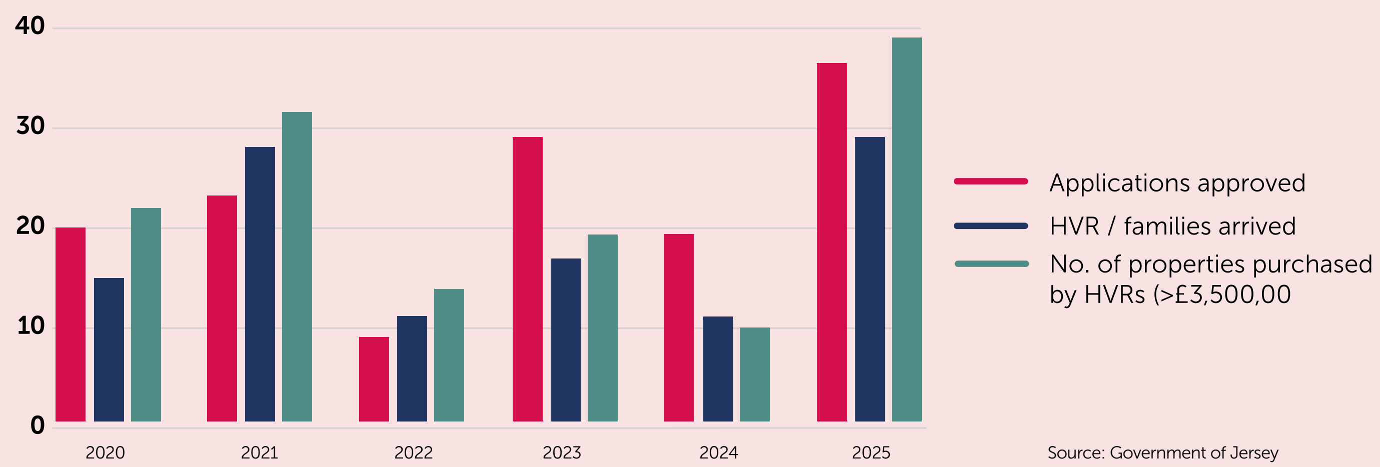
HIGH VALUE RESIDENCY



Source: Government of Jersey

February 2025's purchase of 17a-18 Esplanade reflects this. Acquired vacant, it will be refurbished and extended to an exceptional standard, creating premises for a family office and providing accommodation for several other occupiers. The adjacent 19-21 Esplanade site was then also acquired to create additional offices, and a walkway through to Commercial Street (planning pending), improving connectivity from Esplanade to the primary King Street retail centre. This individual is taking on the planning risk. If granted, the scheme will certainly add to the amenity in the local area.

Investors are drawn not only by a booming rental market, but by the length of leases. Research by Re-Leased on lease length distribution in the UK reveals a marked shift in market behaviour. Since 2019, UK office leases with terms of 12 months or less have surged from just 10% to 44%, while leases of 36–120 months have more than halved. This suggests a decisive departure from traditional long-term agreements, albeit this spans a broad quality spectrum. By contrast, all of Jersey's significant deals have been agreed for terms of between 15 – 18 years, with no breaks.

Similar to the UK, falling interest rates have helped, as have reducing bank margins that have come in by around 100 bps compared to 2023. We expect improved market sentiment in 2026, with our prime yield assessment of around 6.5% tested as more stock is brought to the market.

NAVIGATING UNCERTAINTY: THE CHALLENGE OF NEW PREMISES AMID TIGHTENING SUPPLY AND RISING RENTS

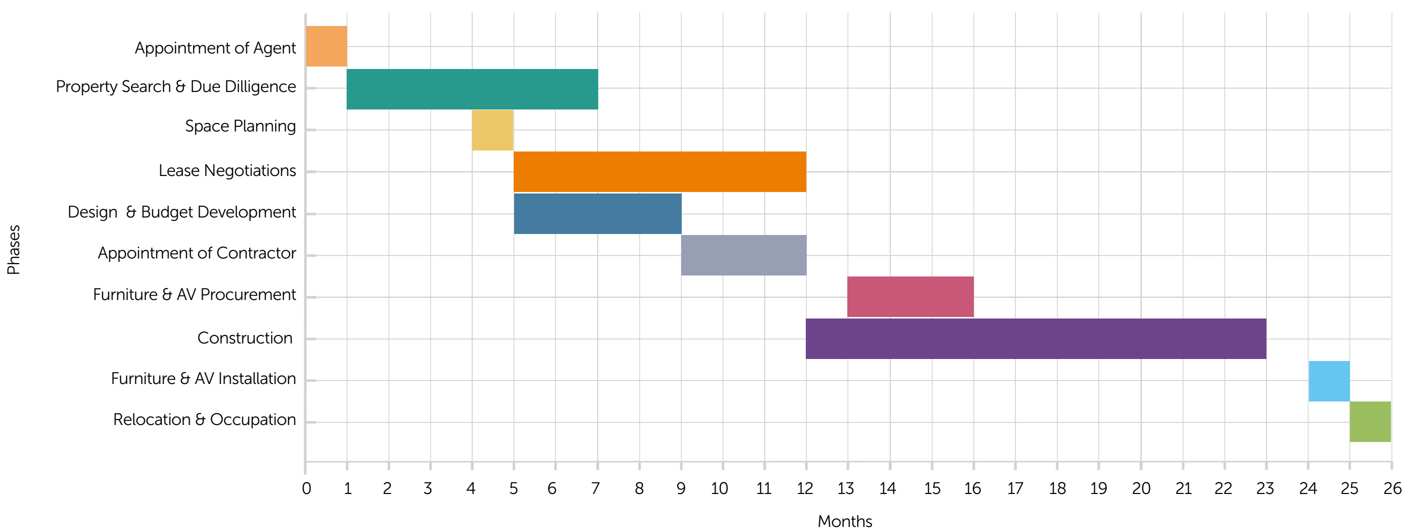
Economic volatility and changing work habits are making it harder than ever for businesses to make long-term office decisions. Supply in the Channel Islands is tightening, with quality space typically let quickly, and in one recent case involving a competitive bid process. Despite record-breaking prime rents, some occupiers hesitate to commit, hoping to save costs by delaying moves, despite rising prices for fit-outs and limited availability.

In Jersey, rising rents can punish this hesitation. Two years ago a 25,000 sq ft second generation building within St Helier's prime office district premises could be let for £30 psf (£750,000 pa). Today those buildings are letting at £40+ psf (£1,000,000 pa).

The lesson? Occupiers must look well ahead in their search. Tenants taking refurbished space must allow a year from starting a search, initial discussions, and signing heads of terms to signing an Agreement to Lease. Then potentially 12+ months for tendering and refurbishment to include CAT A and CAT B, testing and moving in. The chart below illustrates just how long the process can be on for a refurbishment project on 25,000 sq ft.

This time frame may be closer to 42 months for a new development, from search, tendering to practical completion. Developers are unlikely to start on site without a meaningful prelet, creating a significant lead-in time for an occupier.

HIGH LEVEL - GANTT CHART - CAT B OFFICE FIT OUT (25,000 SQ FT)



Source: AJK Consulting Limited

It pays for occupiers to act early in securing a new premises and overleaf is a selection of live prime letting instructions across the Channel Islands.

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A SELECTION OF PRIME LETTING INSTRUCTIONS FOR THOSE OCCUPIERS WANTING TO GET AHEAD:

REGENCY COURT
Over 14,000 sq ft

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TRAFALGAR COURT
Over 81,000 sq ft

IFC 2
Over 98,000 sq ft

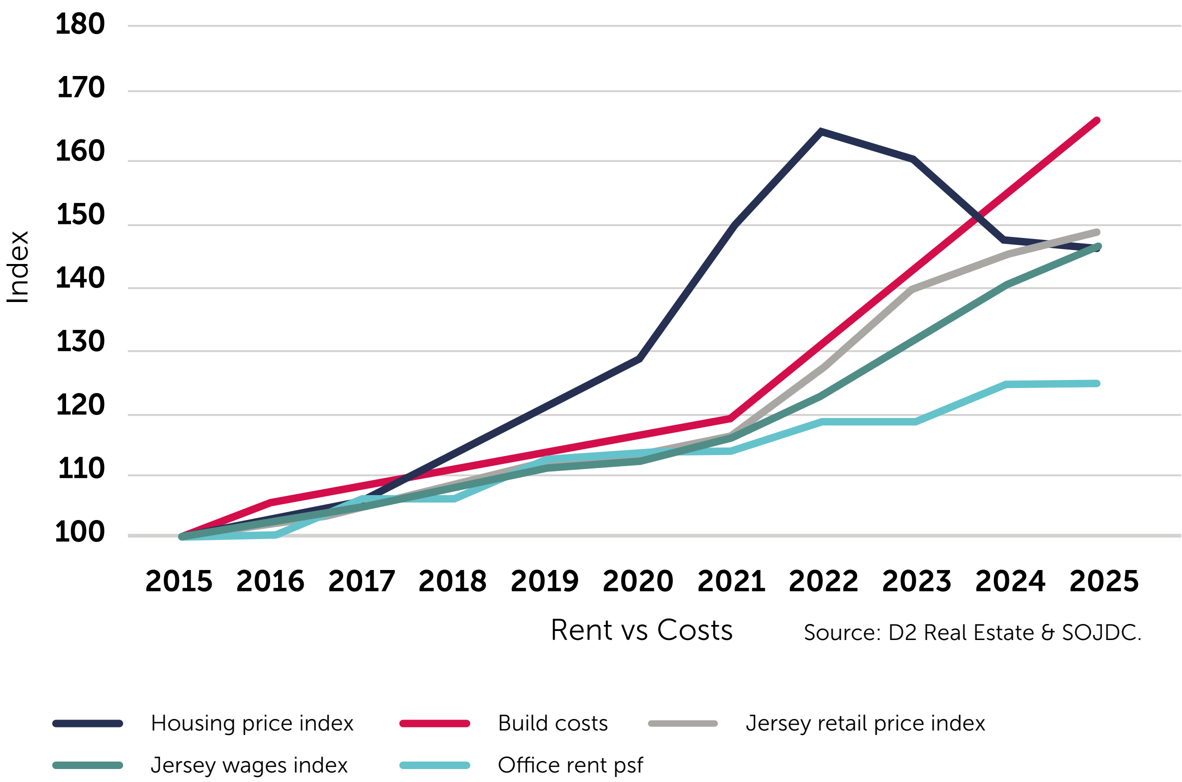
19-21 ESPLANADE
Over 31,000 sq ft

RENTAL GROWTH AND THE COST SQUEEZE: LANDLORD AND TENANT PERSPECTIVES

Despite rising build costs, wage growth, spikes in inflation and a softening of the investment market, rents in the jurisdiction have, for several years, remained comparatively static, as illustrated in the graph below.

This divergence is now beginning to change in landlords' favour, marking what we consider to be an over-due correction. While many are quick to chastise landlords for increasing rents, a properly functioning marketplace relies on there being realistic incentives for landlords to commit to high-quality developments and refurbishments. The process itself is fraught with risk, requiring substantial, long-term strategic investments at a time when, as we have mentioned, the geopolitical climate and economic outlook are becoming increasingly difficult to forecast.

Ultimately, rents are determined by market forces, and tenants' fit out costs have also risen. However, current supply constraints mean rents are rising to reflect demand, and are aligned to the UK for best-in-class buildings. As the data below shows, this will be a case of rents catching up, rather than surging ahead.



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Indicative CGIs illustrating the landlord's proposed investment into common tenant amenities at **Trafalgar Court**

JERSEY'S OCCUPATIONAL MARKET

Number of live office enquiries:
210,000 sq ft

2025 Office take up:
130,000 sq ft

Total office stock vacancy rate:
5.1%

Prime office stock vacancy rate:
1.5%

Typical rent-free incentive value:
1 month rent free per 1 year term certain

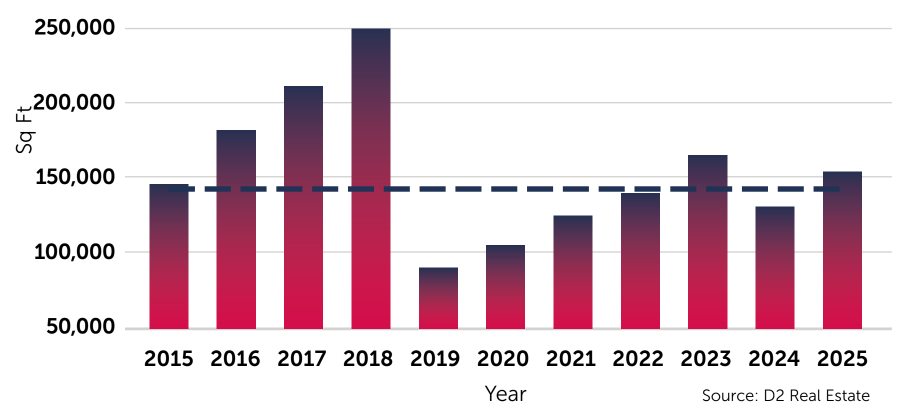
Persistent inflationary pressures on materials and labour within the building industry continue to constrain the development pipeline for office space in St Helier. Prime office accommodation vacancy rates therefore remain low, currently just 1.5%, compared to 5.1% overall. This highlights the gulf separating prime and secondary office space, echoing trends in the Big 6 UK cities (JLL, 2025). Although planning consent has been obtained for new-build schemes such as IFC 2 and 8–9 Esplanade, cost challenges are keeping these projects on hold. Pre-let agreements must achieve rentals of £55+ per sq ft to make projects viable and trigger construction.

Tenant demand continues to outstrip supply, with take-up levels reaching 130,000 sq ft in 2025. This largely reflects tenants' demand for best-in-class accommodation, evidenced through several sub-lettings within the IFC buildings. We expect this trend to continue through 2026, with approximately 210,000 sq ft of live enquiries currently in the market. This activity reflects diverse tenant profiles and motivations, including upgrading to higher-quality space, the launch of a Jersey operation, expansion (notably of professional services firms), and isolated examples of consolidation of office floors.

The supply and demand imbalance has reinforced rental growth across Grade A and prime second-generation buildings over the past two years, especially when comprehensively refurbished. Refurbished second generation buildings now command rents of £40 per sq ft., evidenced by the recent 38,000 sq ft letting at 11–15 Seaton Place, which set a new benchmark outside the Esplanade. Prime second-generation space on Esplanade is following suit, with interest in 40 Esplanade, 25/26 Esplanade and 11-12 Esplanade at the early-to-mid £40s per sq ft.

With reinforced confidence in the occupier market, landlords are investing in high-spec refurbishments. These include 40 Esplanade and the planned substantial refurbishment of the landmark 17a-18 Esplanade, where state-of-the-art amenities and a brand-new green living façade seek to attract best-in-class tenants and secure record-high rents.

ST HELIER TAKE-UP



Source: D2 Real Estate

5 year annual average take up

THREE D2RE PREDICTIONS FOR 2026:

Achieved landmark prime headline rent:
£55 psf

New prime office development unlocked & kickstarted

Improved secondary office take up

GUERNSEY'S OCCUPATIONAL MARKET

Number of live office enquiries:
100,000 sq ft

2025 Office take up:
70,000 sq ft

Total office stock vacancy rate:
10.6%

Prime office stock vacancy rate:
2.6%

Typical rent-free incentive value:
1 month rent free per 1 year term certain

February's letting at Plaza House to Suntera Global marked the building's, and Admiral Park's, full office occupancy. Despite 2025 take up being broadly inline with 2024 levels, examples of prime office transactions were limited with isolated lettings across the scarce vacant prime floor plates. MDJ Partnership secured the top floor space in Royal Chambers and JTC expanded their footprint in Dorey Court, filling the pockets of available accommodation across Guernsey's prime office buildings.

Although 2025 saw no other major tenant moves, demand for serviced offices remains strong, in spite of Polygon Group's restructuring in June. Their serviced offices remain well occupied and following the successful launch of Upper House on Smith Street last year, Field Day are due to complete Mill Place in Q1 2026. This comprehensive refurbishment will provide serviced office accommodation on the outskirts of St Peter Port. With the proposed quality and popularity of the flexible serviced office model in the market, we expect this to be well received.

It is clear tenants continue to prioritise premium office spaces, investing heavily in quality fit outs. Notably, Butterfield Bank's comprehensive fit out at Martello Court, and Investec Bank at Glategny Court targeting a BREEAM-accredited fit out, demonstrating the sustained appetite for best-in-class accommodation to future-fit their office environment. Landlords are also spending, with significant refurbishments at Regency Court, Arnold House and Merchant House to attract new occupiers.

Landlords are now acting well in advance of lease events to minimize future voids and given the time it takes to refurbish buildings. The landlord of Trafalgar Court, is finalising plans to deliver a standout marketplace proposition due to complete in 2028 offering extensive communal areas reflecting the latest UK office developments' 'hospitality-like' amenities, including a gym and feature atrium. What happens at Trafalgar Court will provide a benchmark in the local market as it is the only available building in Guernsey to provide large floorplates of up to 30,000 sq ft. The next largest is Regency Court at 15,000 sq ft with rents expected in excess of £45 psf.

We're continuing to track a substantial number of active tenants' requirements which remain particularly buoyant around the 2,000 sq ft bracket. In terms of larger occupier requirements, there are fewer compared to Jersey, however the development pipeline is negligible so those landlords with large floorplates available, should benefit and we expect to see rental growth filtering through over the course of 2026.

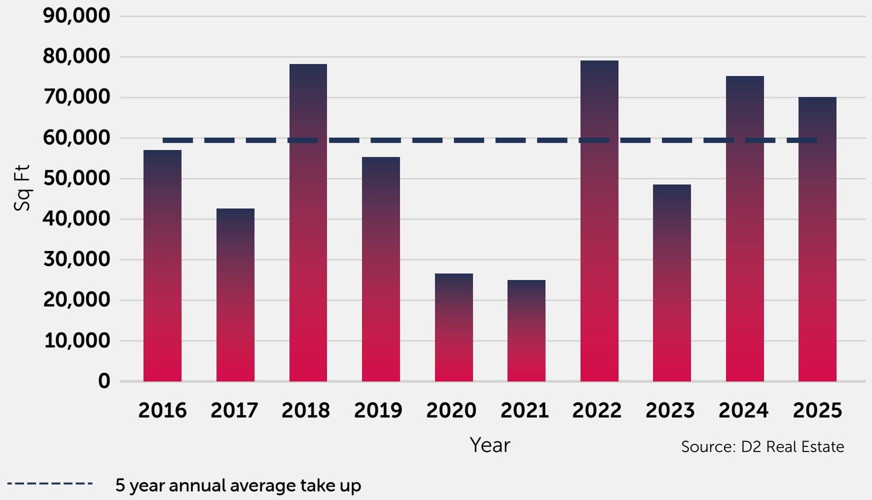
THREE D2RE PREDICTIONS FOR 2026:

Achieved landmark prime headline rent:
£45+ psf

Growth in flex office occupation

Prime office location to remain a key demand driver

ST PETER PORT TAKE-UP



Investec, Glategny Court, St Peter Port

CONCLUSION

Looking to the year ahead, I am cautiously optimistic. Lower interest rates and the fact that margins have come in suggesting that the banks are keen to lend, are a positive sign. However, with a weak economy and reduced GDP compared to 2025 which may subdue investor confidence, I don't expect record investment volumes in 2026.

Locally, I look forward to seeing how several exciting projects evolve across Guernsey and Jersey. Trafalgar Court will be transformed over the coming years, and 17a-18 Esplanade (to be rebranded Chapel Row East) with a green living facade and amenity, will be under construction, available in 2027. There is then IFC, along with the refurbishment and new facade on 40 Esplanade. I expect these high-quality developments to continue to move rents on. There are also some key lease completions approaching on large 25,000 – 40,000 sq ft projects, and I expect innovative tenant fits outs to transform those properties. So, interesting times ahead on the occupational side, but occupiers must start early and select the right team - QS, architect, project manager, agent and lawyers, given the costs and lengthy lead in times of 2.5 - 3.5 years.

On the investment side, I anticipate more prime assets will be brought to the market in 2026, with pricing discovery likely to evolve in the Channel Islands and UK. Asset selection remains critical, particularly where rents and costs are rising. A word of caution - investors must safeguard their asset with proactive property management throughout their ownership. The Channel Islands is a small market where defects will be uncovered. So, if you are considering an investment, or would like to learn how we can help safeguard and enhance value through proactive property management, we would welcome the opportunity to discuss this with you.

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To find out how we can support your real estate strategy with research insights and strategic advice, please contact the team:

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