

COMMERCIAL PROPERTY MARKET REVIEW

AUGUST 2023



HIGHER INTEREST RATES DAMPEN INVESTMENT

The results of the Q2 2023 RICS UK Commercial Property Monitor point to a renewed setback for the commercial property market, with an upward shift in interest rate expectations weighing on investor demand and placing downward pressure on capital values.

The survey shows a clear majority of respondents (68%) are now of the opinion that the commercial market overall is in a downturn phase of the property cycle, with the deteriorating credit environment playing a significant role in this downturn. However, there are pockets of resilience across occupier markets – the industrial sector in particular (alongside some alternative asset classes) continues to show positive rental growth projections for the year ahead.

Away from mainstream sectors, nationwide rental growth expectations remain comfortably in positive territory across multifamily residential, aged care facilities, life sciences, student housing and data centres.

In Scotland, both office rents and industrial rents are expected to rise, with a net balance of 21% and 32% of respondents expecting an increase respectively. In retail, a net balance of -4% of respondents expects rents to decline – up from -51% in Q1.

ALTERNATIVE FUTURE FOR LONDON OFFICES

With London office landlords seeing lettings tumble in recent times and the clamour for warehouses in the capital that took place during the pandemic calming,

the less traditional sector of life sciences looks to be increasing its presence in London.

There has been a recent flurry of investors looking to create specialist sites in London for the UK life sciences industry and there are more opportunities to do so as traditional offices are less in demand.

Property giant British Land is looking to boost its presence in this sector, with a major overhaul of the 1970s Euston Tower. The plan is to adapt the office space into net zero workspace featuring labs for start-ups and scale-ups.

Another example is Canary Wharf Group, which together with developer Kadans Science Partner, has planning permission for a 823,000 sq. ft tower providing workspace for the likes of genomics, medical tech and biotechnology.

SUSTAINABLE BUILDINGS LEAD THE WAY

Recent research, polling 250 UK office landlords, reveals the current state of play as well as outlining the challenges and motivating factors facing the commercial property market as it moves toward net zero targets.

An encouraging 72% of landlords currently have individual sustainability policies in place. However, the minority (30%) lack an overall strategy and say they are struggling to get to grips with sustainability. Notably, 49% of landlords say it is difficult to keep up with regulations on energy efficiency and that the cost of improvements is too high. Even more (53%) say that they are unsure how to effectively go about this.

Many landlords are turning to experts – the survey reports that 92% of landlords are already, or are planning to outsource the implementation and development of sustainability policies to a third party.

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

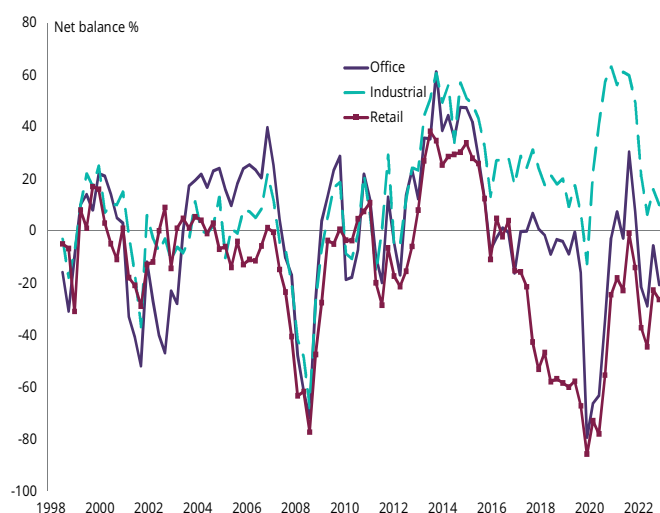
- **London** has the highest number of commercial properties for sale
- There are currently **1,854** commercial properties for sale in **London**, the average asking price is **£1,253,157**
- **Scotland** currently has **1,174** commercial properties for sale with an average asking price of **£342,204**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,854	£1,253,157
SOUTH EAST ENGLAND	1,588	£704,310
EAST MIDLANDS	850	£794,257
EAST OF ENGLAND	961	£585,373
NORTH EAST ENGLAND	840	£323,017
NORTH WEST ENGLAND	1,503	£425,079
SOUTH WEST ENGLAND	1,796	£579,741
WEST MIDLANDS	1,169	£616,035
YORKSHIRE AND THE HUMBER	1,260	£330,041
ISLE OF MAN	50	£442,887
SCOTLAND	1,174	£342,204
WALES	902	£448,390
NORTHERN IRELAND	3	£19,642

Source: Zoopla, data extracted 16 August 2023

COMMERCIAL PROPERTY OUTLOOK

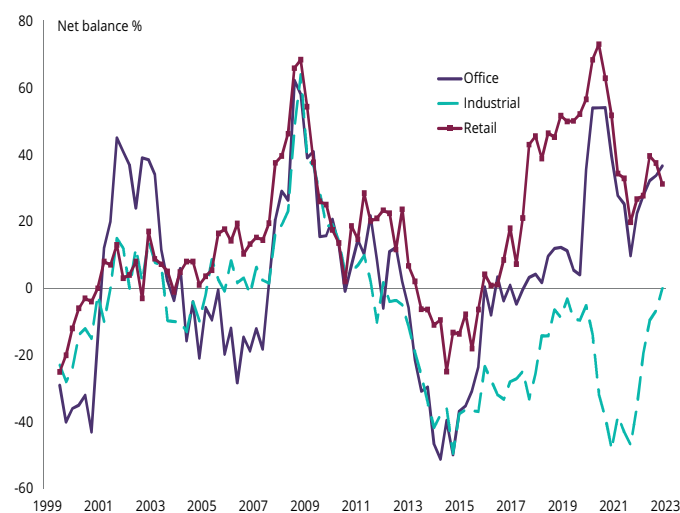
OCCUPIER DEMAND – BROKEN DOWN BY SECTOR



- A headline net balance of -10% of contributors was reported for overall tenant demand over Q2
- Tenant demand fell across both the office and retail sectors, evidenced by negative net balance readings of -21% and -26% respectively
- A net balance of +10% of respondents noted an increase in demand for industrial space.

Source: RICS, UK Commercial Property Market Survey, Q2 2023

AVAILABILITY – BROKEN DOWN BY SECTOR



- Availability was more or less unchanged across the industrial sector in Q2
- Availability of leasable office and retail space has continued to increase in each quarter since the pandemic
- Incentive packages on offer to tenants continued to increase within the office and retail sector.

All details are correct at the time of writing (21 August 2023)

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.