

COMMERCIAL PROPERTY MARKET REVIEW

FEBRUARY 2022



UPBEAT MOOD FOR REGIONAL OFFICE ACTIVITY

The regional office investment market remains upbeat, according to the latest quarterly update from Avison Young, after office demand across the 'Big Nine' returned to 'normal' activity in H2 2021.

A strong second half brought the year's total take-up across the Big Nine cities to 8.1 million sq. ft, only 5% below the ten-year average. Volumes for the Big Nine office markets, meanwhile, recovered to £2.6bn, 8% above the ten-year average. Although the total number of deals slowed in Q4 2021, NatWest acquired One Hardman Boulevard in Manchester for £292m, the largest deal of the year.

Prime yields for most cities were unchanged in the final quarter, with an average of 5.36%. The MSCI quarterly index did, however, show the yield gap between prime and secondary property widening, highlighting a shift towards the best quality assets.

Mark Williams, Principal and Managing Director of Regional Investment at Avison Young commented, "Well-located, good quality assets with a strong tenant base continue to receive good levels of interest, particularly those that meet net zero carbon investment criteria and fulfil expectations for positive rental growth."

ROSY PICTURE FOR INVESTMENT EXPECTATIONS

UK real estate professionals reported positive investment trend movements during Q4, in line with a global uplift in sentiment observed in the latest Royal Institution of Chartered Surveyors (RICS) Global Commercial Property Monitor (GCPM).

The GCPM showed UK capital value expectations for the next year rising across all sectors. Top of the list is the industrial sector; a net balance of +84% of respondents expect prime industrial values to increase.

Prime office value expectations also rose, with a net balance of +24% anticipating an increase. With work-from-home restrictions now lifted, two-thirds of respondents believe an office is still essential to successful operations. At the same time, 76% of contributors noted rising demand for flexible and local workspaces.

Tarrant Parsons, RICS Economist, commented, "*Strength across the UK industrial/logistics market shows no sign of abating, with capital value expectations for the year ahead posting a fresh all-time high across the sector during Q4... sentiment appears to have largely weathered the uncertainty brought on by the rapid spread of the Omicron variant in recent weeks.*"

INDUSTRIALS AND RETAIL WAREHOUSING ARE STAR SCOTTISH PERFORMERS

Industrial property and retail warehousing have surpassed offices in annual volumes for the first time since 2011, with combined investments of £541m, figures released by Knight Frank have revealed.

The pair contributed nearly a third of the year's total investments, a 45% increase on £374m in 2020. Overall, investments in Scottish commercial property reached £1.7bn in 2021, above the £1.4bn recorded in 2020. Glasgow led the way with £475m, ahead of Edinburgh (£429m) and Aberdeen (£54m).

Knight Frank's Alasdair Steele highlighted the "almost insatiable appetite for retail warehousing and industrial property driven by changes to people's shopping habits", adding that this "only looks likely to continue in 2022."

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

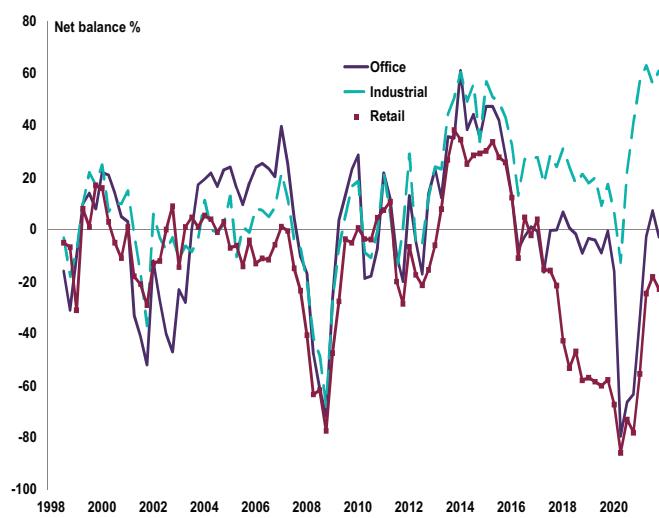
- Regions with the **highest** number of commercial properties for sale currently are **North West England, South West England** and **London**
- Scotland** currently has **1,181** commercial properties for sale with an average asking price of **£329,800**
- There are currently **1,390** commercial properties for sale in London, the average asking price is **£1,537,559**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,390	£1,537,559
SOUTH EAST ENGLAND	1,218	£692,876
EAST MIDLANDS	799	£953,062
EAST OF ENGLAND	811	£694,281
NORTH EAST ENGLAND	799	£306,252
NORTH WEST ENGLAND	1,364	£392,079
SOUTH WEST ENGLAND	1,348	£826,050
WEST MIDLANDS	1,071	£513,077
YORKSHIRE AND THE HUMBER	1,099	£388,104
ISLE OF MAN	52	£474,697
SCOTLAND	1,181	£329,800
WALES	771	£427,982
NORTHERN IRELAND	17	£269,625

Source: Zoopla, data extracted 17 February 2022

COMMERCIAL PROPERTY OUTLOOK

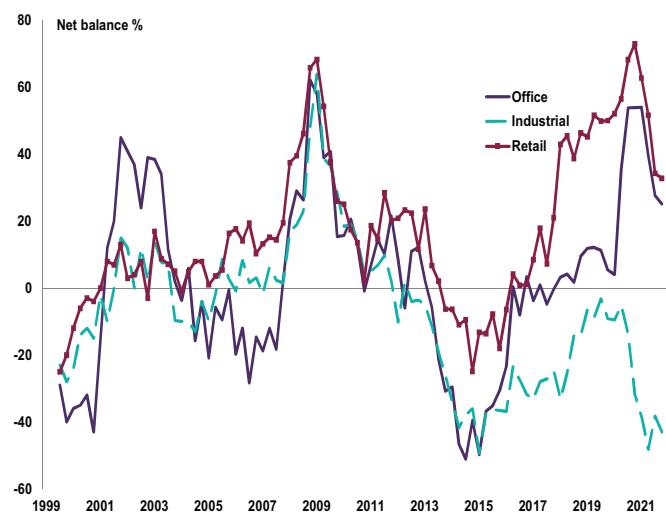
OCCUPIER DEMAND – BROKEN DOWN BY SECTOR



- A headline net balance of +16% of contributors reported a pick-up in overall tenant demand over Q4
- A net balance of +61% reported an increase in tenant demand for industrial space
- Occupier demand figures were -3% and -21% for offices and retail respectively.

Source: RICS, UK Commercial Property Market Survey, Q4 2021

AVAILABILITY – BROKEN DOWN BY SECTOR



- The supply of available industrial space remained negative in Q4
- Office and retail availability remained high and a net balance of +66% felt that office space is still essential for a company to operate successfully
- Of these respondents, +87% reported seeing re-purposing of office space for other uses.

All details are correct at the time of writing (17 February 2022)

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