

COMMERCIAL PROPERTY MARKET REVIEW

MARCH 2022



PRIME SPACE SNAPPED UP BY LEGAL FIRMS

More than one million sq. ft of Grade A office space was taken up by the legal sector in 2021, highlighting the importance of the 'best' space in the post-pandemic landscape.

London's resilient legal sector has enjoyed strong revenue and increased headcount over the last year, which has driven demand for office space. The sector's 2021 office take-up represents the strongest leasing activity of prime space for law firms on record.

International law firms have committed to the UK, with many choosing London as their European headquarters. Notable deals include two by American multinationals; Latham & Watkins, the second highest grossing law firm in the world, acquired 200,000 sq. ft at 1 Leadenhall EC3, while Baker McKenzie, the fourth largest by revenue, took 152,690 sq. ft at 280 Bishopsgate EC2.

Analysts expect the sector to acquire more of the prime space over the coming years. According to Savills, between 2022 and 2026, there are over 5.3m sq. ft of lease events within the legal sector in the City of London, of which 1.8m sq. ft have re-gearred or committed to new office space.

IMPACT OF UKRAINE CRISIS ON COMMERCIAL PROPERTY

Russia's invasion of Ukraine has horrified people around the world and shaken markets and financial systems. What impact will it have on commercial property in the UK?

Directly, analysts think the impact will be limited. Russian investors are not major players in the UK commercial market, accounting for only 0.3% of purchases since 2015, according to Property Market Analysis LLP.

One view is that the Ukraine crisis might shift investor demand away from real estate in central Europe, which could benefit markets perceived to be safe havens, such as the UK and Switzerland.

Indirectly, however, the invasion could have a greater impact. Although Russia's share of global gross domestic product (GDP) is only 1.7%, the country is a major energy producer. Since the start of the invasion, prices across a range of commodities, including oil and gas, have increased sharply.

Legal & General expect real estate impacts to become apparent in the longer term. They note two likely effects, both relating to energy and the green transition; a greater focus from occupiers on energy consumption in buildings and more attention paid by governments to energy security.

YIELDS BACK AT PRE-PANDEMIC LEVELS

The positive investment trend of Q4 2021 has spilled into 2022, according to the latest Savills Market in Minutes, with commercial property investment totalling £6.9bn in January and February, 35% above the same period a year earlier.

The UK average prime yield is now 4.84%, a level not seen since October 2019. The Savills report expects positive sentiment and yield hardening to continue in half of the sectors it monitors. Further downward pressure is expected in prime logistics, high street retail and shopping centres, with repurposing opportunities especially likely for shopping centres off the back of prime demand.

The return of larger deals, noted in Q4 2021, also continues: two assets over £100m were traded in December. In contrast, no deals over £100m were made in the whole of 2020.

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

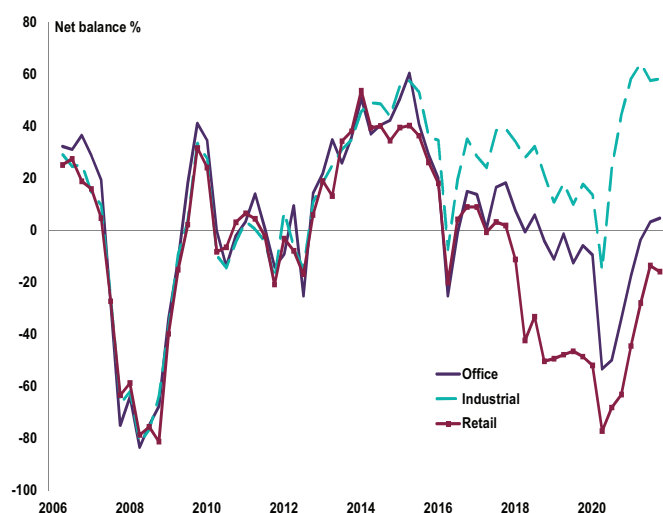
- **South West England** has the **highest** number of commercial properties for sale
- **Scotland** currently has **1,143** commercial properties for sale with an average asking price of **£300,164**
- There are currently **1,479** commercial properties for sale in **London**, the average asking price is **£1,439,098**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,479	£1,439,098
SOUTH EAST ENGLAND	1,272	£698,721
EAST MIDLANDS	825	£981,233
EAST OF ENGLAND	827	£652,627
NORTH EAST ENGLAND	792	£292,527
NORTH WEST ENGLAND	1,410	£375,879
SOUTH WEST ENGLAND	1,543	£788,595
WEST MIDLANDS	1,092	£502,987
YORKSHIRE AND THE HUMBER	1,119	£394,312
ISLE OF MAN	53	£473,099
SCOTLAND	1,143	£300,164
WALES	782	£416,640
NORTHERN IRELAND	16	£280,370

Source: Zoopla, data extracted 23 March 2022

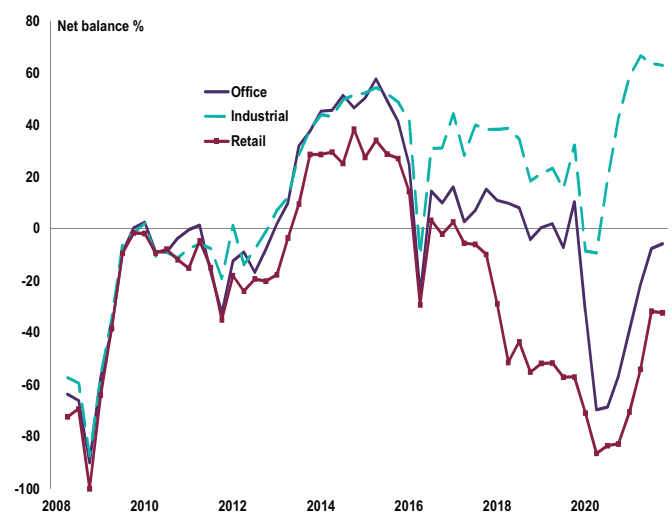
COMMERCIAL PROPERTY OUTLOOK

INVESTMENT ENQUIRIES – BROKEN DOWN BY SECTOR



- A headline net balance of +19% of contributors reported a pick-up in overall buyer enquiries over Q4
- Demand was mostly driven by the industrial sector (+58%)
- A marginal pick-up of +5% was reported for the office sector, taking this out of negative territory for the last two reports.

CAPITAL VALUE EXPECTATIONS – BROKEN DOWN BY SECTOR



- Twelve-month capital value expectations continued to strengthen across both prime and secondary industrial sectors
- Prime office values are expected to see a small uplift although a negative trend is still anticipated for secondary
- Retail capital value expectations remain negative across the board.

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

All details are correct at the time of writing (23 March 2022)

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.