

COMMERCIAL PROPERTY REVIEW

MARCH 2021

Our property market review is intended to provide background to recent developments in property markets as well as to give an indication of how some key issues could impact in the future.

We are not responsible or authorised to provide advice on investment decisions concerning property, only for the provision of mortgage advice. We hope you will find this review to be of interest.

TRANSACTION VOLUMES 'MUTED'

Savills recently released UK Commercial 'Market in Minutes' report, highlighted that transaction volumes across all commercial property sectors were 'muted' during the first two months of 2021. The largest contributor toward the fall in activity during January and February was the central London office market. Despite this, as social distancing measures ease, Savills are anticipating a recovery in office investment activity.

Office landlords across the UK recently took part in a Savills survey to gauge their views and attitudes towards the flexible workspace sector. Three quarters of respondents expect their tenants will require more flexible lease terms in the future. Interestingly, many landlords are advanced in flexing their offering to suit this growing requirement, with 29% of respondent landlords already operating a flexible offering, and a further 29% planning to develop one. The scale of change is likely to be significant when you consider that those planning to develop such flexibility currently own almost 304m sq ft of office space.

The report reiterates the continued rise in popularity of retail warehousing. Investors increasingly regard it as a segment of retail that is more defensive against the impacts of the pandemic. With prime retail warehouse yields currently 125 bps higher than they were two years ago, Savills 'expect to see more opportunistic investors entering this sector over the next 12 months.'

BA CONSIDERS SALE OF HQ

British Airways is considering selling its Heathrow Waterside headquarters, as the airline's 2,000 staff based at the site continue to work from home. BA are exploring a hybrid way of working, blending remote and office-based work, and have hired property consultants to evaluate the options.

BA's Director of People, Stuart Kennedy said it was "not clear if such a large office will play a part in our future" and that some people "miss the team spirit and energy that comes from being together."

In a recent statement, the airline outlined, 'The global pandemic has shown us that many of our colleagues enjoy working remotely and want to continue, and this has accelerated our approach to offering more agile and flexible ways of working. Our aim is to find a hybrid working model that suits our business, blending the best of office and remote working for our people.'

M&S PROPOSES REDEVELOPMENT OF MARBLE ARCH FLAGSHIP

As consumers' buying habits continue to move online, Marks and Spencer has outlined its intention to demolish and redevelop its flagship London store. The multimillion-pound redevelopment will nearly halve the retail space from 160,000 to 90,000 sq ft and introduce several floors of office space.

In advance of submitting plans in May, the retailer has launched a consultation. Development work will begin in 2023 and complete by 2027. The group's Retail, Operations and Property Director, Sacha Berendji, said that by taking an "assertive approach... we can unlock additional value from the site." The conversion of some space to offices would reduce rental costs and transfer some of the business rates burden of almost £5m a year, to other occupiers.

The plans reflect similar moves by fellow retailers, including John Lewis, who are looking to identify alternative uses for their retail space, as ecommerce accelerates in the wake of the pandemic.

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

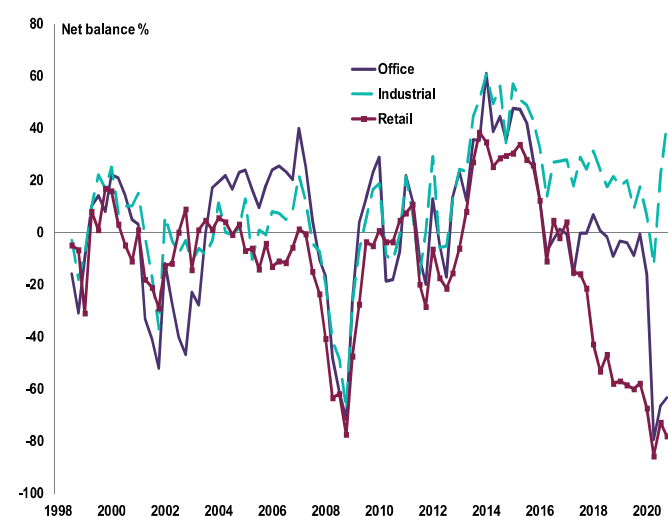
- Regions with the **highest** number of commercial properties for sale currently are the **South West** and **North West of England**
- Northern Ireland** currently has the **lowest** number of commercial properties for sale (**29** properties)
- There are currently **1,273** commercial properties for sale in London, the average asking price is **£1,269,598**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,273	£1,269,598
SOUTH EAST ENGLAND	1,187	£637,279
EAST MIDLANDS	816	£983,129
EAST OF ENGLAND	689	£550,059
NORTH EAST ENGLAND	818	£371,906
NORTH WEST ENGLAND	1,514	£430,356
SOUTH WEST ENGLAND	1,598	£553,729
WEST MIDLANDS	1,205	£502,864
YORKSHIRE AND THE HUMBER	1,244	£331,850
ISLE OF MAN	50	£477,587
SCOTLAND	1,247	£302,167
WALES	754	£391,989
NORTHERN IRELAND	29	£372,263

Source: Zoopla, data extracted 24 March 2021

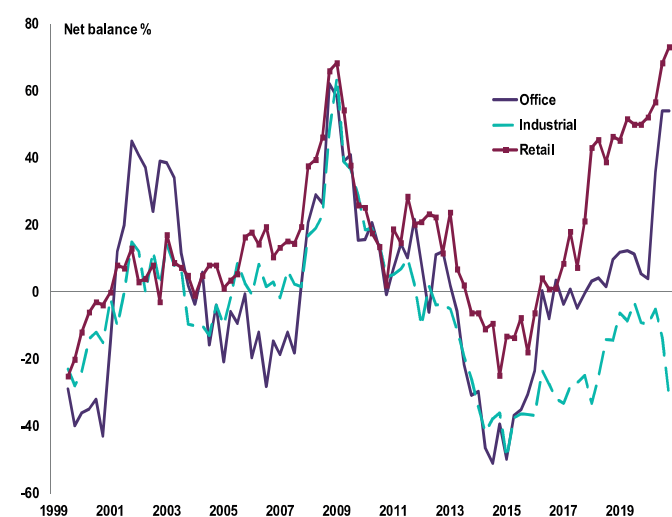
COMMERCIAL PROPERTY OUTLOOK

OCCUPIER DEMAND – BROKEN DOWN BY SECTOR



- A headline net balance of -27% of contributors reported a fall in overall tenant demand over the quarter
- The decline is less severe than in Q2 and Q3 2020, due to the industrial sector reporting a net balance of +41% of respondents citing an improvement in demand
- Retail and office sectors remain deep in negative territory.

AVAILABILITY – BROKEN DOWN BY SECTOR



- The retail sector posted the sharpest uptick in vacant space (in net balance terms) since 1999
- The availability of leasable office space rose at the strongest rate since the global financial crisis
- Industrial availability continued to contract, with the latest net balance falling to -35% from -14% last quarter.

Source: RICS, UK Commercial Property Market Survey, Q4 2020

All details are correct at the time of writing (24 March 2021)

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.