

COMMERCIAL PROPERTY MARKET REVIEW

MAY 2022



RETURN TO THE OFFICE

According to a recent business update, London's office-leasing market is kicking back into life after its pandemic-induced slumber, with modern and energy-efficient space most in demand.

Companies are willing to pay higher rents for leases than they were a year earlier, according to Derwent London, a FTSE 250 office landlord. The value of its new lettings have risen to £3.9m in the year to date, 8.2% above the estimated rental value in December.

With the rise in flexible working, however, office occupancy remains far below pre-pandemic levels. Nationwide, the figure is currently about 26%, according to Remit Consulting, a significant fall from 60% before the pandemic.

This low occupancy rate has allowed new tenants to focus on securing high-quality space. Occupiers' requirements are narrower but more immutable, Derwent said, with modern, energy-efficient offices that contribute to lowering a company's carbon emissions highly sought after.

STRONG DEMAND BUT CAUTION ENDURES

The commercial market gained momentum in Q1 2022, according to the latest Royal Institution of Chartered Surveyors UK Commercial Property Survey, with demand growth accelerating for both occupiers and investors.

A net balance of +32% of respondents reported an increase in occupier demand at the all-sector level, the strongest reading since 2015. The office occupier market was a top performer in the quarter, increasing its net balance from -3% to +30%. Office occupier demand in the retail sector returned to -1%, following a level of -23% in Q4 2021.

Investor demand was strong too, with a net balance of +32% of respondents reporting an increase in buyer enquiries at the all-property level. Alongside a steady increase in the supply of leasable office and retail space, sustained demand has led to the all-property capital value expectations being revised higher for the coming year.

Despite these strong figures, however, many contributors remain cautious in the face of macroeconomic pressures. Rising living costs and higher interest rates are causing some to point to a growing sense of nervousness in the market.

LOGISTICS QUARTERLY ROUND-UP

Uptake of logistics space in Q1 2022 totalled 10.43m sq. ft, according to CBRE's latest UK Logistics Market Summary, twice as high as the corresponding figure in 2021.

Correspondingly, the UK vacancy rate fell in the quarter and currently sits at 1.55%. Ready-to-occupy supply also dipped slightly on a quarterly basis, meaning it has now fallen 55% year-on-year.

This busy activity, however, is being matched by increased speculative activity. The total speculative under construction space at the end of the quarter was 14.97m sq. ft. Even though more than a third has already been taken, the year ahead should be busy, the report suggests.

Continuing the trend, nearly all UK regions experienced rental growth in the quarter, as UK prime rents recorded yet another new record. Driven by this strength, Q1 industrial and logistics investment volumes, although lower than Q4 2021's record levels, have risen 19% year-on-year.

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

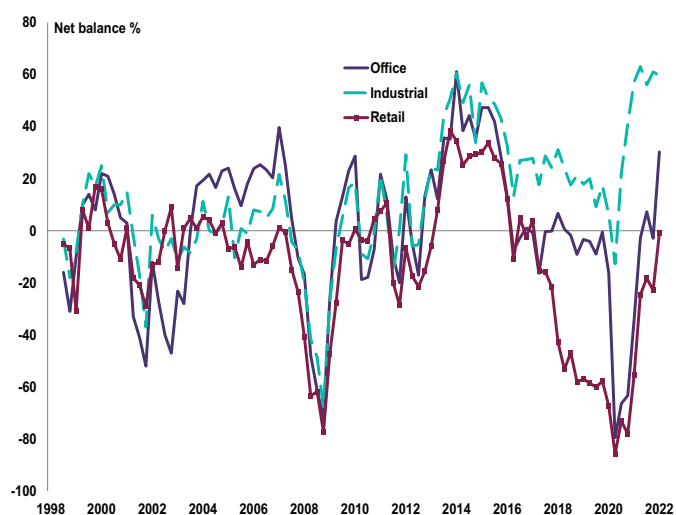
- Regions with the **highest** number of commercial properties for sale currently are **North West England, South West England** and **London**
- Scotland** currently has **1,072** commercial properties for sale with an average asking price of **£313,293**
- There are currently **1,529** commercial properties for sale in **London**, the average asking price is **£1,453,268**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,529	£1,453,268
SOUTH EAST ENGLAND	1,282	£701,172
EAST MIDLANDS	852	£967,602
EAST OF ENGLAND	839	£670,950
NORTH EAST ENGLAND	813	£298,952
NORTH WEST ENGLAND	1,448	£366,705
SOUTH WEST ENGLAND	1,463	£926,433
WEST MIDLANDS	1,079	£516,167
YORKSHIRE AND THE HUMBER	1,170	£393,536
ISLE OF MAN	53	£473,099
SCOTLAND	1,072	£313,293
WALES	803	£400,309
NORTHERN IRELAND	18	£275,753

Source: Zoopla, data extracted 19 May 2022

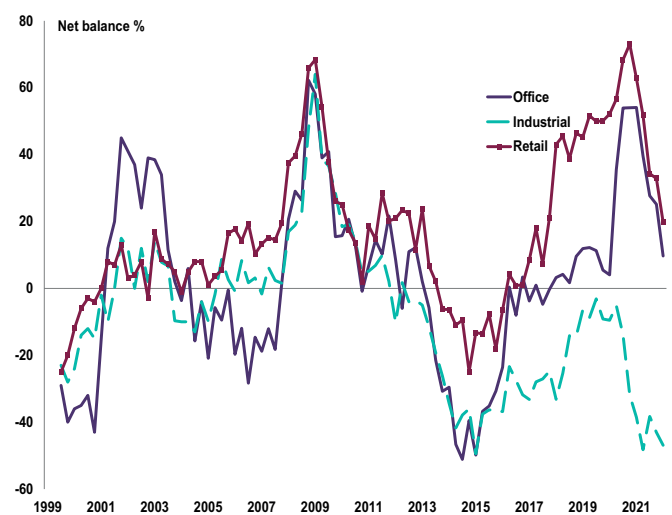
COMMERCIAL PROPERTY OUTLOOK

OCCUPIER DEMAND – BROKEN DOWN BY SECTOR



- A headline net balance of +32% of contributors reported a pick-up in overall tenant demand over Q1
- A net balance of +60% reported an increase in tenant demand for industrial space
- Occupier demand figures for offices improved to +30% from -3% in the previous quarter.

AVAILABILITY – BROKEN DOWN BY SECTOR



- At the all-sector level, the Q1 net balance of -9% is the first outright negative reading for the overall availability measure since 2017
- For the industrial sector, vacancy rates declined further over the quarter, with the latest net balance coming in at -47%

Source: RICS, UK Commercial Property Market Survey, Q1 2022

All details are correct at the time of writing (19 May 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.