

COMMERCIAL PROPERTY MARKET REVIEW

MAY 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.

AMAZON EXPANDING UK WAREHOUSE SPACE

As the US e-commerce titan continues to ramp up its UK warehouse presence, it has been reported that Amazon is intending to take warehouse space at Magna Park Lutterworth, the UK and Europe's largest dedicated logistics and distribution park, located in Leicestershire.

With the surge in home delivery continuing, prompted by the pandemic, the company is set to take 401,000 sq. ft of warehouse space and 10,000 sq. ft of adjoining office space, renting 'MP411' from Canadian property management company, BentallGreenOak. In a deal completed earlier this year for £303m, the landlord purchased the space as part of a portfolio of properties from Morgan Stanley Real Estate and Thor Equities Group. Amazon already has several sites across the UK, including Doncaster, Manchester, Peterborough, Dunfermline and Tilbury.

COMMERCIAL PROPERTY SNAPSHOT

In the latest UK Monthly Index Snapshot of April from commercial real estate services and investment firm CBRE, capital growth was reported for the third consecutive month at the commercial All-Property level. In April, capital values increased by 0.5%, rental values rose 0.1% and total returns were up 1.0% (All-Property).

The industrial sector reported capital growth of 1.8% (down from 2.6% in March), while both office sector and retail sector capital values decreased by 0.1%. This was the smallest monthly decline in retail capital values in over three years. Retail warehouses outperformed the sector average with capital growth of 0.6% in April. All-Property rental growth was 0.1% in the month. Retail rental values declined 0.2% in the month, office rental values were flat at 0.0%, while industrial rental values increased by 0.5% in April.

Looking at total return over the month, a measure of each sector's overall performance, industrial total returns were 2.2% in April, retail 0.6% and office 0.3% month-on-month.

BREATHING LIFE INTO LONDON'S OFFICE SPACE

According to office developer Workspace Group, in Q1 2021, viewings, enquiries and new lettings for London office space increased. In March, the group agreed 150 new lettings, more than double the 71 recorded in January. Graham Clemett, Workspace Chief Executive commented, "We're back at pre-COVID levels and it doesn't seem like a false dawn, it looks like a consistent return of customers."

Despite the government's advice to continue working from home if you can, occupancy rates in the company's buildings have also increased, up from 20% of pre-pandemic levels at the end of March, to 30% at the end of April. Clemett added, "We're seeing our existing customers coming back. Workers are returning faster to suburban locations than to city centre offices."

In further proof the capital's office market is showing signs of life, property investment and development business Derwent London, recently agreed £1.3m worth of new lettings on its London estate.

Shifting office tenant demands were uncovered in a recent survey conducted by Knight Frank, which highlights how the pandemic has escalated the importance of offices as collaborative spaces that support employee wellbeing, rather than just environments to maximise productivity. Head of Global Occupier Research at Knight Frank Lee Elliott, commented, "Our number one finding is that occupiers see the office as a way to promote corporate culture. They are looking for much more hospitality-driven space, giving people a reason to invest in their commute — both financially and psychologically."

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

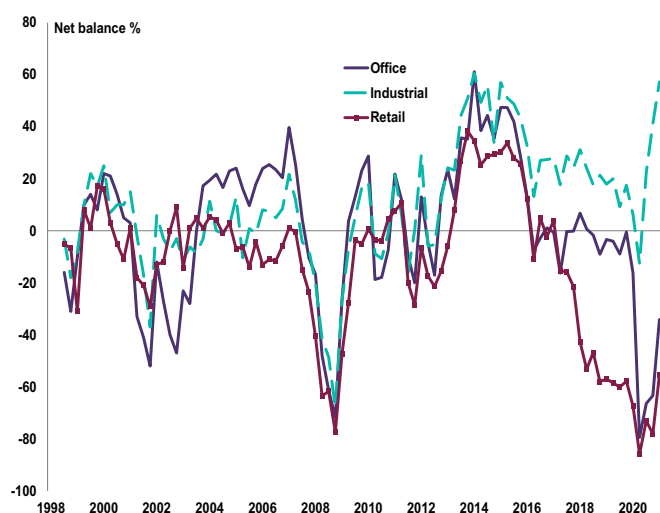
- Regions with the **highest** number of commercial properties for sale currently are the **South West** and **North West of England**
- Northern Ireland** currently has the **lowest** number of commercial properties for sale (**23** properties)
- There are currently **1,265** commercial properties for sale in **London**, the average asking price is **£1,430,786**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,265	£1,430,786
SOUTH EAST ENGLAND	1,181	£621,458
EAST MIDLANDS	799	£972,289
EAST OF ENGLAND	700	£591,359
NORTH EAST ENGLAND	770	£387,069
NORTH WEST ENGLAND	1,461	£426,540
SOUTH WEST ENGLAND	1,579	£565,364
WEST MIDLANDS	1,161	£487,970
YORKSHIRE AND THE HUMBER	1,155	£324,708
ISLE OF MAN	50	£461,187
SCOTLAND	1,118	£299,465
WALES	762	£391,375
NORTHERN IRELAND	23	£329,233

Source: Zoopla, data extracted 20 May 2021

COMMERCIAL PROPERTY OUTLOOK

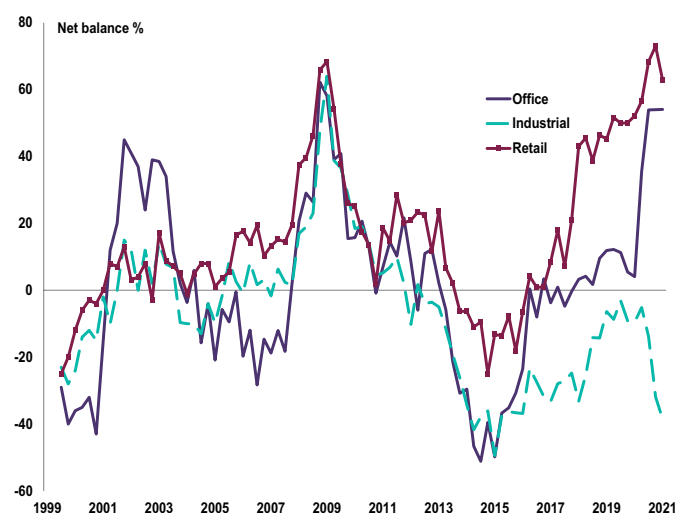
OCCUPIER DEMAND – BROKEN DOWN BY SECTOR



- A headline net balance of -5% of contributors reported a fall in overall tenant demand over the quarter, compared to -27% in the previous quarter
- A net balance of +57% reported an increase in demand for industrial space
- Retail and office sectors remain in negative territory at -55% and -34% respectively.

Source: RICS, UK Commercial Property Market Survey, Q1 2021

AVAILABILITY – BROKEN DOWN BY SECTOR



- Availability remains on the rise across the retail sector
- The availability of leasable office space also continues to rise – 95% of survey respondents expect businesses to scale back on office space over the next two years
- The supply of industrial space continues to tighten, with the latest net balance falling to -39% in Q1.

All details are correct at the time of writing (20 May 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.