

COMMERCIAL PROPERTY MARKET REVIEW

FEBRUARY 2023



COMMERCIAL MARKET DOWNBEAT BUT WITHSTANDING

Conditions in the commercial property market continued to decline in Q4 2022, according to the latest UK Commercial Property Market survey from the Royal Institution of Chartered Surveyors (RICS).

At the national level, 83% of respondents consider the market to be in downturn, a slight increase from 81% in the previous quarter. All-sector net balance for tenant demand fell to -20% (from -10% in Q3), the weakest such reading since the end of 2020. Noteworthy drops included occupier demand across offices (-29%) and retail premises (-45%).

This downbeat picture was reflected in Scotland, where overall demand dropped for both occupiers (-14%) and investors (-27%). The Scottish retail sector fared badly, with net balances of -44% for occupiers and -68% for investors. Demand for Scottish industrial space proved a rare exception, with occupiers (+41%) and investors (+12%) both recording positive net balances.

TURNING POINT FOR LOGISTICS AND PRIME OFFICE SHORTAGES

Yields in January 2023 presented 'a very mixed story', according to Savills' most recent Market in Minutes: UK Commercial report.

The latest figures show downward pressure on parts of retail, stability in logistics and softening in prime office yields. In total, the average prime yield rose marginally to 5.68%, the report states, its highest level since 2008.

According to analysts, the stabilisation in prime logistics yields was regarded as the first sign of a pricing plateau. Near record low vacancy rates are expected to become a reality again through

2024 and beyond, experts say, therefore pushing rents higher and creating increased competition for the best space.

A separate report from Colliers notes that new Grade A office properties continued to dominate occupier activity in 2022. In Birmingham, Leeds, Manchester and other key regional cities, average prime rents grew last year, pushed by record levels of demand. Falling Grade A vacancy is set to increase in the years ahead, the report concludes.

AMAZON SET TO SHED UK WAREHOUSES

Amazon is aiming to rid itself of empty warehouses across the UK, it has been revealed, after recording its worst annual loss on record.

During the pandemic, the tech giant is estimated to have opened hundreds of warehouses globally, to prepare itself for an expected boom in online spending. Now that demand for online orders has started to dry up, however, Amazon has lost around 30% of its value.

In response, the company is aiming to sublet warehouses acquired during the pandemic surge that it has not yet moved into, experts say. As part of a wider review of its operations, Amazon has already announced it will be closing three warehouses and seven delivery stations in the UK.

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COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

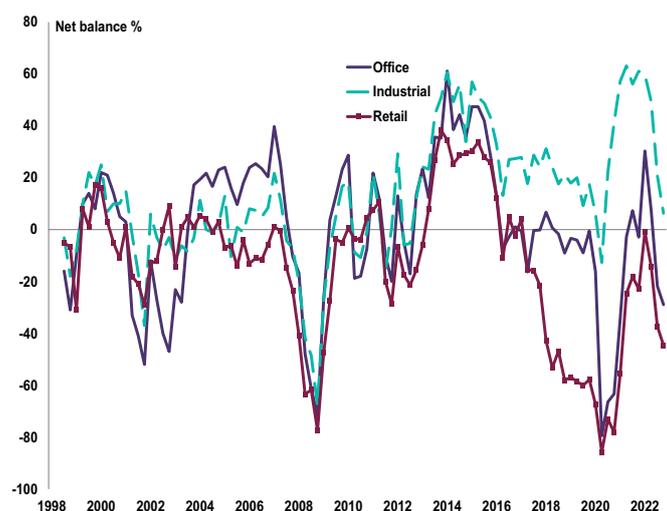
- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,069** commercial properties for sale with an average asking price of **£322,857**
- There are currently **1,648** commercial properties for sale in **London**, the average asking price is **£1,318,935**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,648	£1,318,935
SOUTH EAST ENGLAND	1,399	£671,222
EAST MIDLANDS	834	£989,639
EAST OF ENGLAND	893	£569,703
NORTH EAST ENGLAND	821	£346,030
NORTH WEST ENGLAND	1,457	£496,714
SOUTH WEST ENGLAND	1,709	£528,114
WEST MIDLANDS	1,141	£528,061
YORKSHIRE AND THE HUMBER	1,236	£311,583
ISLE OF MAN	51	£445,280
SCOTLAND	1,069	£322,857
WALES	852	£411,454
NORTHERN IRELAND	6	£101,309

Source: Zoopla, data extracted 16 February 2023

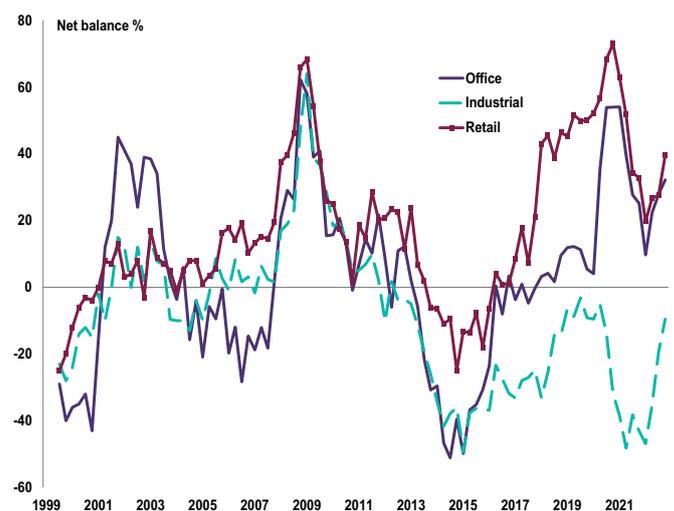
COMMERCIAL PROPERTY OUTLOOK

OCCUPIER DEMAND – BROKEN DOWN BY SECTOR



- A headline net balance of -20% of contributors was reported for overall tenant demand over Q4
- This is down from a figure of -10% in the previous quarter
- Tenant demand in the industrial sector remains positive at +6%, although this measure has significantly softened from strong growth in H1.

AVAILABILITY – BROKEN DOWN BY SECTOR



- Both the office and retail sectors continue to see a rise in vacant leasable space in Q4
- Availability for industrial space fell slightly in this quarter
- Incentive packages on offer to tenants increased in each sector, although the rise was much more modest for industrials.

Source: RICS, UK Commercial Property Market Survey, Q4 2022

All details are correct at the time of writing (16 February 2023)

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.

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