

Commercial Property Market Review

November 2022



Weakening outlook for commercial property

The Q3 2022 Royal Institution of Chartered Surveyors (RICS) UK Commercial Property Survey reveals a picture of weakening market activity, with 81% of respondents now considering the market to be in downturn.

Headline expectations for rents and capital values were in negative territory in Q3. Prime office rents are expected to remain broadly flat in the year ahead, as opposed to a previously expected increase. Meanwhile, the outlook for the secondary office sector is more negative, with a net balance of -42% of respondents expecting a decline in rents (down from a reading of -26% in Q2).

Twelve-month rental expectations are still positive for the industrial sector, while the degree to which rents are envisaged rising is the most modest since the early stages of the pandemic.

Looking ahead, the prospect of further interest rate rises continues to weigh heavily on the outlook for the next 12 months. *'The full extent is not currently known'* commented one respondent.

Prime yields rise in stormy quarter

All-property average prime rents rose by 1.5% in Q3 2022, according to CBRE's latest quarterly Prime Rent and Yield Monitor.

Yields moved up 41 basis points, following a turbulent quarter that included the market turmoil brought about by September's 'mini budget'. The latest Market in Minutes report from Savills also showed yields rising across the board, as commercial markets repriced at speed. The report observes that, *'price discovery is happening more quickly than we have ever seen before in a falling market'*.

Savills remain optimistic about the outlook for the office and logistics occupational markets, noting that these sectors proved their resilience during the turbulent pandemic years, even delivering record prime rent levels in some cases. The same factors that drove this resilience – an undersupply of prime space and a contracting development pipeline – remain in place, it points out.

Less positively, weakening confidence and rising construction prices are leading to fewer-than-expected refurbishment and development starts this year. Indeed, 43% of planned London office completions have not yet started on site.

Strong take-up in big shed market

The industrial sector remains resilient, according to Avison Young's Big Box Bulletin Q3 2022, with strong market fundamentals holding firm in trying economic conditions.

Take-up in Q3 totalled 14.8m sq. ft – 47.8% above the five-year quarterly average. Analysts expect demand to stay strong, moreover, especially 'best-in-class' buildings with strong environmental credentials.

Year-to-date take-up still lags the record-breaking performance of 2021, which, analysts say, is the result of an undersupplied market. Indeed, availability of grade A space is currently 24m sq.ft, equivalent to only two months' worth of supply based on recent demand.

Key Q3 occupiers included SeAH Wind Ltd (1,130,000 sq. ft), Rhenus Logistics (981,042 sq. ft) and Maersk (601,761 sq. ft). Q3 take-up was dominated by speculative (44%) and design & build (41%), with existing buildings contributing 15%.

Regionally, the East Midlands (30.7%) led the way, ahead of Yorkshire and North East England (23.4%) and North West England (13.4%).

Commercial property currently for sale in the UK

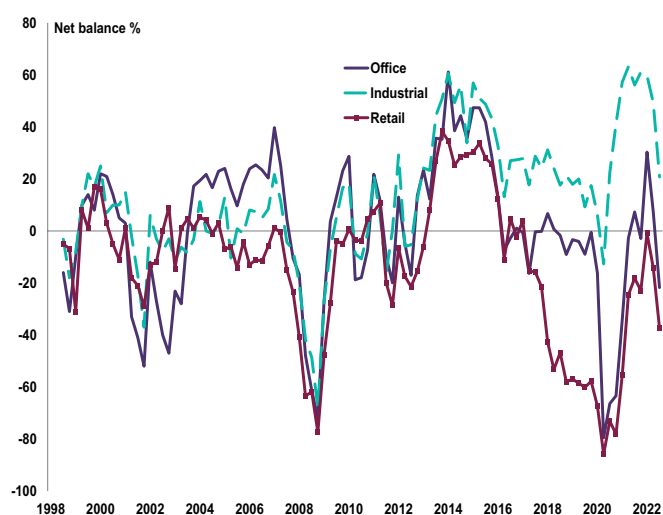
- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,090** commercial properties for sale with an average asking price of **£330,206**
- There are currently **1,687** commercial properties for sale in **London**, the average asking price is **£1,353,892**.

Region	No. properties	Avg. asking price
London	1,687	£1,353,892
South East England	1,423	£663,868
East Midlands	880	£951,667
East of England	876	£549,382
North East England	848	£349,223
North West England	1,432	£474,639
South West England	1,726	£559,240
West Midlands	1,211	£510,362
Yorkshire and The Humber	1,263	£314,829
Isle of Man	52	£440,852
Scotland	1,090	£330,206
Wales	863	£434,913
Northern Ireland	23	£700,403

Source: Zoopla, data extracted 24 November 2022

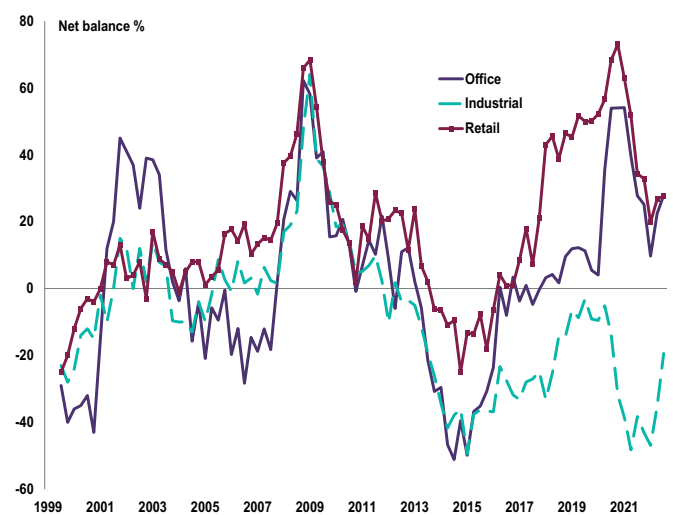
Commercial property outlook

Occupier demand – broken down by sector



- A headline net balance of -10% of contributors was reported for overall tenant demand over Q3
- This is down from a figure of +17% in the previous quarter
- Tenant demand in the industrial sector remains positive at +21%, although this measure has eased in each of the last three reports.

Availability – broken down by sector



- Both the office and retail sectors continue to see a rise in vacant leasable space in Q3
- Close to 90% of respondents expect businesses to scale back at least some of their office footprint over the next twelve months
- Supply remains tight in the industrial sector.

Source: RICS, UK Commercial Property Market Survey, Q3 2022

All details are correct at the time of writing (24 November 2022)

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