

Commercial Property Market Review

March 2023



Spring Budget – Investment Zones announced

On 15 March, Jeremy Hunt delivered his *“Budget for Growth”* focusing on four pillars ‘Everywhere, Enterprise, Employment and Education.’

Encompassed within the ‘Everywhere’ pillar, Mr Hunt spoke about the government’s plans for ‘Levelling Up,’ including the launch of 12 new Investment Zones or *“potential Canary Wharfs”*. For each of the eight zones in England, £80m of support over five years will be available for skills, infrastructure and tax reliefs. The locations identified in England are East Midlands, Greater Manchester, Liverpool City Region, the North East, South Yorkshire, Tees Valley, West Midlands, and West Yorkshire.

The remaining four Investment Zones will be located across Wales, Northern Ireland and Scotland (at least one zone in each nation) with the incentives for these to be agreed with the relevant Devolved Administrations.

The tax incentives correspond to those currently offered to Freeports, including:

- Stamp Duty Land Tax relief for commercial property
- Business rates relief
- Enhanced capital allowances – deduction for certain qualifying expenditure on plant and machinery
- Enhanced structures and buildings allowance
- Relief against the cost of Employer’s National Insurance contributions for new employees.

Capital values decline in February

UK commercial property performance measured by the latest CBRE Monthly Index for February 2023, highlights that capital values fell by 0.5% in the month, with rental growth registering a very small gain of 0.2% and total returns flat at 0.0%.

All three sectors registered declines in capital values throughout the month, with industrial, office and retail falling 0.6%, 0.6% and 0.3% respectively. Focusing on the industrial sector, South East located industrials experienced a higher decline than those in the rest of the UK. Capital value falls in the office sector were primarily driven by offices located outside of the capital, with values in central London falling 0.1% and those in the rest of the UK and outer London/M25 falling 1.2% and 1.4% respectively.

Industrial and logistics sector – a ‘significant amount of investment capital is sitting on the fence’

Take up of industrial and logistics space in 2023, according to Colliers recent UK Market Pulse, is predicted to fall to around 30m sq. ft, down from 36.9m sq. ft. in 2022. Colliers are attributing this predicted contraction to occupier cost pressures and depressed retail spending.

Other key findings from the report highlight an expectation that online spending will remain elevated when compared with pre-pandemic levels, positive news for the sector. With supply for industrial and logistics remaining low, predictions suggest an increase during the year, with a *‘healthy pipeline under construction and some more space being returned to the market.’*

A *‘significant amount of investment capital is sitting on the fence,’* according to the report. It is a possibility that values will be pushed higher in H2 2023 as commercial tension increases.

Commercial property currently for sale in the UK

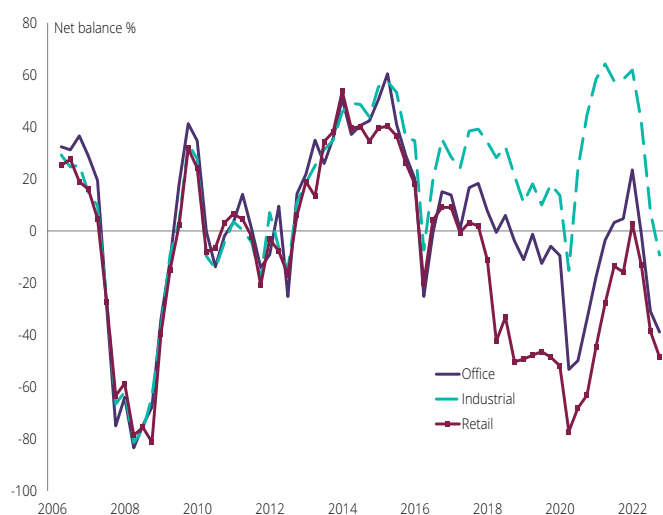
- **London** has the highest number of commercial properties for sale
- **Scotland** currently has 1,129 commercial properties for sale with an average asking price of **£310,863**
- There are currently **1,711** commercial properties for sale in London, the average asking price is **£1,290,721**.

Region	No. properties	Avg. asking price
London	1,711	£1,290,721
South East England	1,436	£664,959
East Midlands	815	£814,637
East of England	900	£605,317
North East England	824	£341,891
North West England	1,451	£425,594
South West England	1,705	£551,240
West Midlands	1,152	£522,209
Yorkshire and The Humber	1,236	£312,524
Isle of Man	49	£419,475
Scotland	1,129	£310,863
Wales	860	£422,583
Northern Ireland	6	£32,221

Source: Zoopla, data extracted 22 March 2023

Commercial property outlook

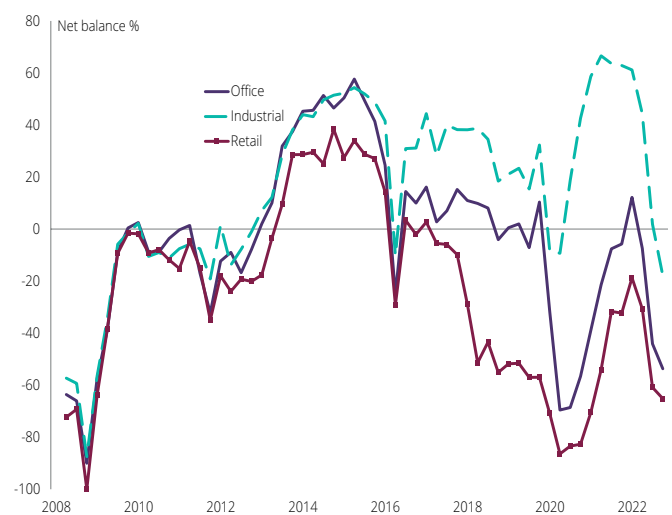
Investment enquiries – broken down by sector



- The headline net balance for investment enquiries fell to -30 in Q4 2022
- Declines in investor interest were reported across all sectors during the quarter
- Overseas investment demand was down within each sector compared to Q3 2022.

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

Capital value expectations – broken down by sector



- For the industrial sector, the Q4 net balance reading of -18% marks the weakest figure for this metric going back to 2011
- Capital value expectations fell across the office and retail sectors, posting net balances of -54% and -65% respectively in Q4
- For the next 12 months, capital value projections are in negative territory across all three mainstream sectors.

All details are correct at the time of writing (22 March 2023)

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