

Commercial Property Market Review

September 2022



Grade A offices dominate

Activity in London's city office market slowed in July, according to Savills latest data, totalling 144,128 sq. ft across 21 deals.

Demand for Grade A stock continues to dominate the market, with 91% of year-to-date take-up being of such quality. The Professional Services sector remains similarly prevalent, accounting for 28% of this year's transactions.

Despite a muted month, take-up for the year totalled 3.2m sq. ft – 64% higher than the same period last year, although 5% below the ten-year average. July's average transaction size was just 6,863 sq. ft, with the month's largest transaction being the 16,661 sq. ft acquisition by PEI Media of the fifth floor at 100 Wood Street, EC2.

Momentum also slowed in the 'Big 6' regional office markets in H1 2022, according to a report by Jones Lang LaSalle (JLL). The UK's Big 6 comprises Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester. Take-up was 25% down year-on-year, as supply across the Big 6 regional markets fell.

Slower quarter for commercial property

Spending fell across all commercial property sectors in the second quarter, according to Carter Jonas' Q2 2022 UK Investment Quarterly report, with retail and industrial the most significant losers.

£12.4bn was traded in Q2 2022, a 28% quarterly fall and 44% below the five-year quarterly average. Investment in the

regional markets surpassed the capital in the second quarter, with 55% of all investment (excluding portfolio deals) taking place outside London.

Despite this notable drop in the capital (from 67% in Q1 2022), the so-called 'flight to quality' remained prominent, analysts note. This pandemic-era trend combined with an enduring strength in overseas investment to form the quarter's stand-out headlines. Indeed, overseas capital accounted for 59.7% of total Q2 investment, up from 54.9% in the previous quarter.

Challenges ahead for data centres

As the world adjusts to an increasingly digital future dominated by hybrid and remote work models, data centre activity continues to grow across the globe.

The increased demand for data centres – huge groups of networked computer servers that allow companies to run applications and process data – remains a challenge, according to JLL. Its Data Centre Outlook H1 2022 report notes that issues with the availability of land and power are pushing operators to consider new markets with more availability.

Indeed, with demand predicted to grow globally in the coming years, experts suggest that impediments to new data centre supply in major markets will drive expansion outside the traditional hubs. Persistent supply chain delays are also predicted to cause delivery challenges for the next 24 months.

Commercial property currently for sale in the UK

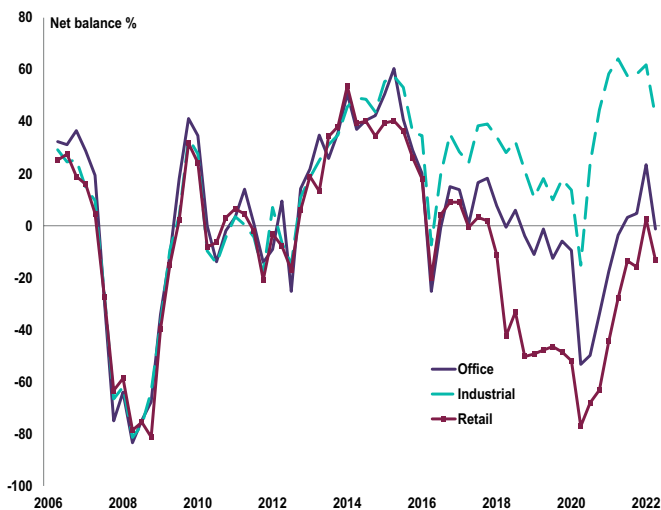
- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,069** commercial properties for sale with an average asking price of **£350,752**
- There are currently **1,582** commercial properties for sale in **London**, the average asking price is **£1,380,630**.

Region	No. properties	Avg. asking price
London	1,582	£1,380,830
South East England	1,414	£669,727
East Midlands	865	£990,480
East of England	895	£641,940
North East England	826	£319,279
North West England	1,425	£389,113
South West England	1,675	£566,268
West Midlands	1,182	£498,470
Yorkshire and The Humber	1,228	£306,642
Isle of Man	53	£470,176
Scotland	1,069	£350,752
Wales	860	£410,679
Northern Ireland	16	£674,365

Source: Zoopla, data extracted 20 September 2022

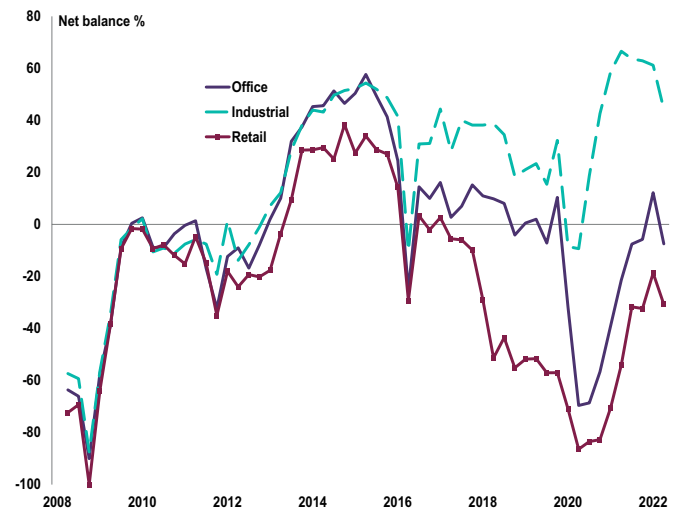
Commercial property outlook

Investment enquiries – broken down by sector



- The headline net balance for investment enquiries eased to +12%, following a stronger reading of +32% last quarter
- The office sector net balance slipped to -1% from +23% in Q1
- For industrials, the latest net balance of +42% of respondents reporting a rise in buyer enquiries is the least elevated reading since Q3 2020.

Capital value expectations – broken down by sector



- The all-property average reading softened to a net balance of just +3% following a figure of +24% in Q1
- Capital value expectations dropped back into negative territory for prime retail units in Q2
- Twelve-month capital value expectations have now moved into broadly neutral territory.

Source: RICS, UK Commercial Property Market Survey, Q2 2022

All details are correct at the time of writing (20 September 2022)

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