

Commercial Property Market Review

December 2023



'Grey' warehouse space on the rise

According to recent analysis by Jones Lang LaSalle (JLL), real estate and investment management services provider, 'grey' warehouse space is increasing.

Classified as available space unofficially marketed for either sublease or assignment, grey warehouse space has historically been limited to smaller pallet storage space, less frequently associated with warehouses or full units. Grey space is typically unfinished or partially built areas within a building that have not been fully customised or allocated for specific tenants or purposes.

According to the data, levels of grey space which comprise of whole or large parts of buildings, have been rising, with around 600,000 sq. m now available in the UK. At such high levels, increasingly third-party agents are being engaged to develop solutions to unload unused space.

The current rise in levels of grey space can be attributed to several factors, including e-commerce providers being left with excess warehouse space when the post-pandemic recovery faltered due to elevated inflation impacting sales. In addition, ongoing economic uncertainty is causing an uptick in restructurings and bankruptcies which has seen grey space coming to the market for sublease or assignment. There is also pressure from green legislation requiring capital expenditure to meet requirements.

Regional office investment

Savills latest regional office 'Market in Minutes' research has shown that weaker market sentiment has impacted regional investment volumes in the sector.

With £1.9bn of transactions recorded at the end of Q3, this was 62% below 2022 volumes. And with just over £500m transacted in the quarter, this represents the lowest regional quarterly total since Q3 2008.

While weaker investor sentiment is pervading the regional office market, Savills note *'an uptick'* in activity across occupational markets, adding, *'The polarisation in letting and rental performance of prime and secondary assets has accelerated post COVID-19, notably in the Greater London and South East region, where 75% of take-up recorded in the first three quarters of the year was Grade A standard. This was the highest proportion ever recorded.'*

Looking into 2024, corporate occupiers are likely to continue to pursue 'best-in-class' office space, which is sustainable and has a good offering of amenities, to attract and retain staff, something landlords and investors need to be mindful of.

UK hotels defy expectations

According to Knight Frank's recent trading performance review of UK hotels in 2023, profits have exceeded pre-pandemic levels, with hotel trading performance defying expectations across most segments.

Robust trading achieved by *'pro-active and competent'* hotel operators has proven successful in generating strong cashflows, which has countered *'softening yields,'* the research deduces.

London has experienced a strong rebound, with the 12-month occupancy to September 2023 increasing 16 percentage points to reach 77%. Supported by overseas visitors, this takes the capital's occupancy rate ahead of 'Regional UK' for the first time since the post-pandemic recovery commenced. Occupancy levels have also benefited from strong growth in meetings, events, and leisure demand.

Commercial property currently for sale in the UK

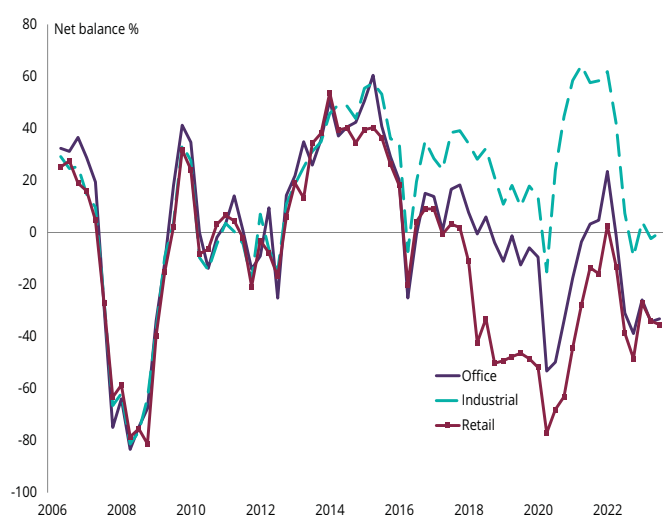
- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,150** commercial properties for sale with an average asking price of **£348,365**
- There are currently **1,806** commercial properties for sale in **London**, the average asking price is **£1,244,686**.

Region	No. properties	Avg. asking price
London	1,806	£1,244,686
South East England	1,564	£712,917
East Midlands	768	£856,197
East of England	871	£624,818
North East England	828	£333,070
North West England	1,392	£417,877
South West England	1,807	£604,893
West Midlands	1,133	£526,873
Yorkshire and The Humber	1,180	£352,048
Isle of Man	28	£519,248
Scotland	1,150	£348,365
Wales	841	£479,315
Northern Ireland	5	£27,499

Source: Zoopla, data extracted 20 December 2023

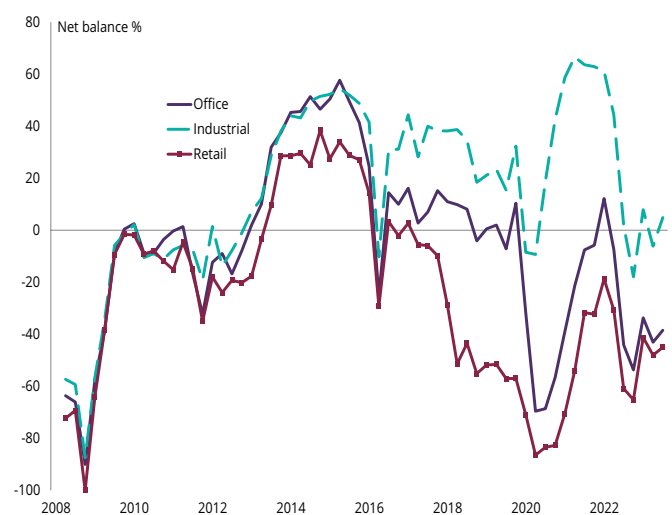
Commercial property outlook

Investment enquiries – broken down by sector



- The headline net balance for investment enquiries was -21%, representing the fifth consecutive quarter of negative readings for this indicator
- Investment demand for offices and retail assets came in at -33% and -35% respectively
- Industrial buyer demand is flat, showing a net balance of zero for Q3.

Capital value expectations – broken down by sector



- Capital value projections for the next 12 months remain negative in the traditional market sectors
- Prime industrial values are anticipated to see a slight increase over the year ahead
- Housing and life sciences are expected to post positive capital value growth in the year to come.

Source: RICS, UK Commercial Property Market Survey, Q3 2023

All details are correct at the time of writing (20 December 2023)

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