

COMMERCIAL PROPERTY MARKET REVIEW

NOVEMBER 2023



ESG CREDENTIALS COME TO THE FORE IN THE INDUSTRIAL AND LOGISTICS SECTOR

November's UK Commercial Market in Minutes from Savills has highlighted the continued robustness in the industrial and logistics sector, despite a reduction in take-up during the year due to economic uncertainty.

The weaker demand has given warehouse space occupiers the opportunity to be more selective about their requirements, which has created a 'significant gap when it comes to prime and secondary rents as businesses look to prioritise ESG credentials,' according to the report. As occupiers focus more than ever on the quality of space, ESG requirements have become a key consideration for all third-party logistics providers to succeed in gaining customer contracts.

The financial benefits to firms from efficiencies derived from acquiring Grade A space, mean it's now near the top of the wish list when it comes to tenants selecting a new warehouse unit. Occupiers are also appreciating the benefits in attracting and retaining staff that a contemporary, well-specified building can provide.

From a rental perspective, although supply is rising, prime unit rents are still rising, recording a 5.8% increase, versus 0.3% for secondary space. With take-up of second hand stock lagging and achieving rental levels lower than prime units, landlords and developers need to be mindful of the requirement for redevelopment or refurbishment of stock to satisfy potential occupiers' ESG requirements.

RETAIL RECOVERY 'YET TO BEGIN IN EARNEST'

The latest Royal Institution of Chartered Surveyors (RICS) market update indicates the resilience of retail

transaction volumes in Q3, reaching a five-year high of £1.9bn.

Although retail volumes have experienced a more positive period, yield data from CBRE indicates 'a turnaround in the retail sector has yet to begin in earnest.' At a headline level, retail yields average 7.2% at present, versus 6.5% at the start of 2023.

SCOTTISH COMMERCIAL PROPERTY INVESTMENT LIKELY TO 'PICK-UP' IN 2024

Colliers recent Property Snapshot of the Scottish Commercial Market shows that during Q3, investment volumes slowed from £500m in Q2, to £330m. This figure is approximately 33% below the 5-year quarterly average.

In the year to the end of Q3, total investment volumes registered £1.1bn, this is a 47% reduction on the 2022 Q1-Q3 figure recorded. Year-to-date (end Q3) from a sector perspective, 32% of investment activity can be apportioned to the retail sector, followed by 26% for offices and 15% for industrial.

During the third quarter, a total of 32 deals were transacted, the average lot size of which was £10m, a reduction from an average of £13m the previous quarter. According to the report, transaction volumes have been hindered by a 'scarcity of accessible financing options,' with a recovery heavily dependent on a combination of lower debt costs and bond yields, plus a recovery in asset process.

Looking ahead, Colliers believe that investment activity is 'likely to remain subdued' during the fourth quarter, but into 2024 they're expecting 'a pick-up... when investor sentiment improves, and interest rates and inflation continues to fall.'

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

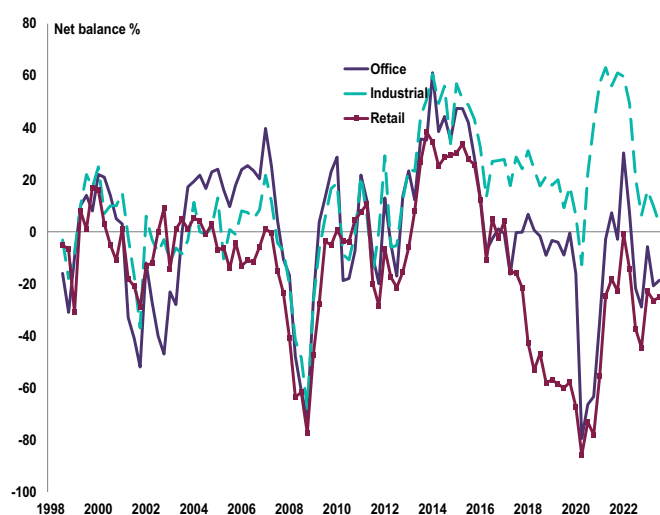
- **London** has the highest number of commercial properties for sale
- There are currently **1,921** commercial properties for sale in **London**, the average asking price is **£1,318,078**
- **Scotland** currently has **1,185** commercial properties for sale with an average asking price of **£344,245**

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,921	£1,318,078
SOUTH EAST ENGLAND	1,588	£202,623
EAST MIDLANDS	882	£867,296
EAST OF ENGLAND	928	£573,396
NORTH EAST ENGLAND	883	£343,857
NORTH WEST ENGLAND	1,444	£406,983
SOUTH WEST ENGLAND	1,828	£628,882
WEST MIDLANDS	1,162	£597,208
YORKSHIRE AND THE HUMBER	1,203	£327,452
ISLE OF MAN	20	£42,887
SCOTLAND	1,185	£344,245
WALES	884	£427,428
NORTHERN IRELAND	4	£23,928

Source: Zoopla, data extracted 14 November 2023

COMMERCIAL PROPERTY OUTLOOK

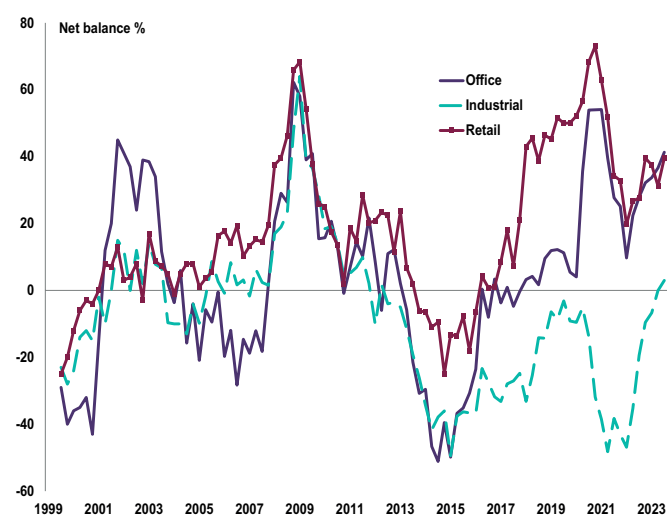
OCCUPIER DEMAND – BROKEN DOWN BY SECTOR



- A headline net balance of -12% of contributors was reported for overall tenant demand over Q3, down marginally from -10% in Q2
- The negative trend continues for both the office and retail sectors, evidenced by net balance readings of -19% and -25% respectively
- A net balance of +3% of respondents noted an increase in demand for industrial space, which is the softest reading since Q2 2020.

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

AVAILABILITY – BROKEN DOWN BY SECTOR



- Respondents continue to cite an increase in overall vacant space in both the office and retail sectors
- The use of incentive packages, such as rent-free periods continue to climb in offices and retail
- A flatter picture has emerged for the industrial sector.

All details are correct at the time of writing (15 November 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.