Commercial Property Market Review

July 2022

Our monthly property market review is intended to provide background to recent developments in property markets as well as to give an indication of how some key issues could impact in the future.

We are not responsible or authorised to provide advice on investment decisions concerning property, only for the provision of mortgage advice. Commercial lending is available by referral to a master broker. We hope you will find this review to be of interest.

Strong first half for commercial property

Investment and take-up performed strongly in H1 2022, according to Savills' latest UK Commercial Property update, while vacancy rates remained low.

Overall investment levels in H1 2022 were 20% above the long-term average, even after slowing in the second quarter. The total half-yearly investment of £25.4bn came mostly towards the start of 2022, with just £8.3bn transacted in Q2.

Occupier markets remain strong across the board, with take-up reaching a record-breaking 28.6m sq. ft in the logistics market in H1 2022, 91% above the long-term average. In the City, meanwhile, year-to-date take-up was 2.3m sq. ft, 5% above the 10-year average.

Accordingly, vacancy rates in the logistics market remain *'structurally low'*, Savills noted, at just 3.01%. Likewise, in the regional office market, vacancy has fallen to 9.4%, as occupier demand edges back towards pre-COVID levels. Overall vacancy is likely to remain low going forward, Savills expects.

Another key trend identified in the report is the shift in new occupier requirements towards manufacturing closer to the point of sale. As companies swap 'just in time' for 'just in case' supply chains, analysts expect demand to strengthen further.

Shopping centre investment up in H1 2022

Investment in UK shopping centres has increased by 169% year-on-year, according to Knight Frank's H1 2022 Retail Investment Report, as investors prepare for an anticipated return topre-pandemic shopping habits.

The report reveals that shopping centre investment volumes climbed to £1.24bn in H1 2022, up from £460m a year earlier. Overseas and private equity investors led the way, though institutional investment into the outlet sector also contributed to the rise.

Investor demand was focused mostly on smaller in-town shopping centres, the report highlighted, even as a handful of larger 'destination' malls were sold. Notably, Switzerland-based Redical Capital acquired Victoria Gate and Victoria Quarter in Leeds for a combined £120m.

Will Lund, of Knight Frank, commented, *"After years of falling valuations we are seeing a shift in investor sentiment and shopping centres starting to come back into fashion [...] With pricing and rents now stabilising, investors are beginning to see the long-term appeal and resilience of shopping centres as a key part of modern multichannel retail."*

Quality logistics space still in demand

High demand and an acute lack of available stock have pushed the UK vacancy rate to a new low of 1.18%, according to CBRE's UK Logistics figures Q2 2022, as quality space continues to dominate the market.

H1 2022 saw record-breaking take-up in the logistics market, with a 9% increase from H1 2021. In Scotland, on the other hand, the vacancy rate is now 6.85%, according to Savills, with take-up of units over 100,000 sq. ft subdued so far this year.

Poor quality available space is holding the Scottish market back, analysts suggest. Currently, all space on the market is classified as Grade B (23%) or Grade C (77%), while the only 100,000 sq. ft transaction in 2022 was for a Grade A built-to-suit space.

Quilter Financial Planning

Commercial property currently for sale in the UK

- *South West England* has the highest number of commercial properties for sale

- *Scotland* currently has *1,087* commercial properties for sale with an average asking price of *£332,927*

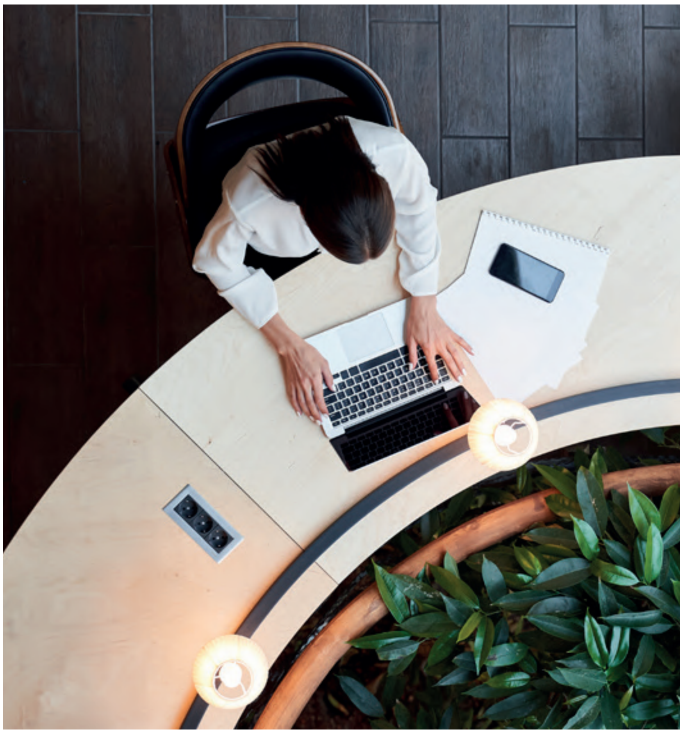
- There are currently *1,560* commercial properties for sale in *London*, the average asking price is *£1,448,172.*

Region	*No. properties*	*Avg. asking price*
London	1,560	**£1,448,172**
South East England	1,383	**£658,646**
East Midlands	846	**£962,779**
East of England	896	**£623,556**
North East England	881	**£304,371**
North West England	1,475	**£361,906**
South West England	1,634	**£574,226**
West Midlands	1,105	**£508,866**
Yorkshire and The Humber	1,192	**£330,168**
Isle of Man	52	**£472,968**
Scotland	1,087	**£332,927**
Wales	789	**£419,394**
Northern Ireland	14	**£300,892**

Source: Zoopla, data extracted 21 July 2022

Google's 330-metre vote of confidence in office working

Construction has been completed at Google's new UK HQ, the first Google-owned and designed building outside the US, in a sign of the company's commitment to post-pandemic office working.



Based in London, between King's Cross and St Pancras, the new HQ comes complete with a pool, nap pods and rooftop exercise track. Nicknamed the *'landscraper'*, the building reaches 72 metres at its highest point and stretches to 330 metres – which means it is longer than the Shard is tall. It is expected that 4,000 of Google's current 6,400 staff will work in the new office building from 2024.

Many companies are still working out the quantity and types of space required in the post-pandemic landscape. Google, for example, seems to have committed to hybrid working. In 2021, Chief Executive Sundar Pichai announced that most of its staff would spend three days in the office and *"two days wherever they work best".*

All details are correct at the time of writing (21 July 2022)