UK Valuation Dashboard

June 2022

Capital value growth continues to accelerate sharply across the UK Commercial Property Market

ECONOMICS

Economic Summary

A continued escalation in inflationary pressures is causing further concern for policymakers, with the Bank of England now forecasting the headline rate of CPI will reach close to 10% over the coming months. As a result, the Monetary Policy Committee voted to raise interest rates once again in May, marking the fourth consecutive meeting in which a rate hike has been sanctioned. This leaves Bank rate at 1%, having increased from 0.1% just six month ago, but, perhaps more significantly, the messaging from the latest minutes of the MPC meeting struck a more hawkish tone, suggesting that a further tightening in policy is to be expected through the second half of the year. That said, with the Bank's own projections pointing to a contraction in UK GDP ahead, the task of trying to stave off high inflation, while economic activity is already being dampened by several headwinds, is becoming increasingly precarious.

Commercial Property Market

Commentary

The UK Commercial Property Market has attracted strong investment levels in the year to date, with Q1 volumes up by 59% on an annual comparison according to Costar figures. Accompanying this, capital value growth has continued to accelerate at an exceptionally strong pace, with CBRE figures showing capital value gains are running at their fastest rate in 12 years (approximately 17% yoy). On the occupier side of the market, tenant demand growth gained momentum during Q1, evidenced by the RICS Commercial Property Market survey indicator in this area hitting a near seven-year high. Supporting this, an improvement is coming through across both the office and retail sectors, which having struggled throughout much of the past two years. That said, for retail, this recovery is predominately being seen across warehouses and standard shops, whereas shopping centres remain more challenging. Meanwhile, the industrial segment remains the standout performer, even if growth in rents and capital values is likely to settle now following an extraordinarily strong pick-up over the past six months.

Chart 1) Rent Expectations

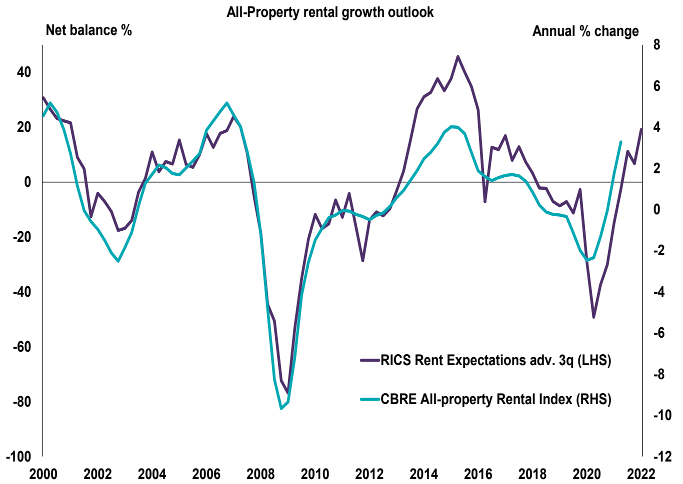

Chart 1 tracks the near-term rental expectations series from the RICS Commercial Property Market Survey alongside the annual growth rate in the CBRE rental index. Given the recent rise in the RICS expectations series, it now looks likely that headline rental growth will accelerate from 3.2% in Q1 (average over the period) to closer to 4.5% by the end of the year.

Chart 2) Investment Enquiries

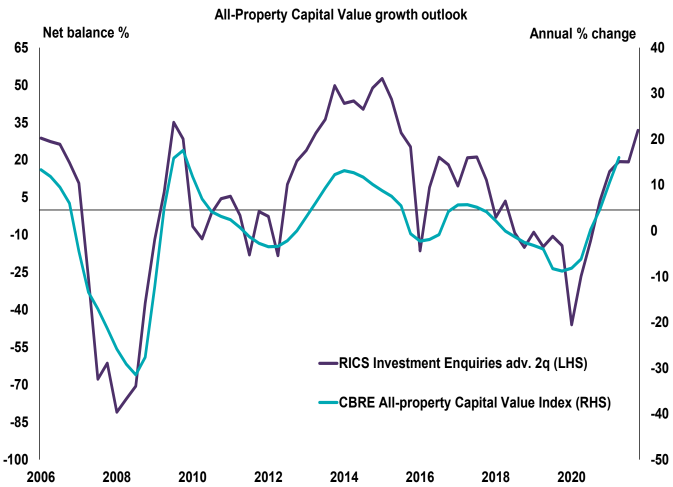

Chart 2 maps the RICS Investment Enquiries indicator against the CBRE capital value index. On the basis of the recent pick-up in the investment enquiries data, capital value growth may continue to accelerate and could potentially breach 20% in the coming months. Further ahead however, strong base effects are likely to mean this headline rate of growth eases somewhat by the end of the year.

Chart 3) Office Capital Values

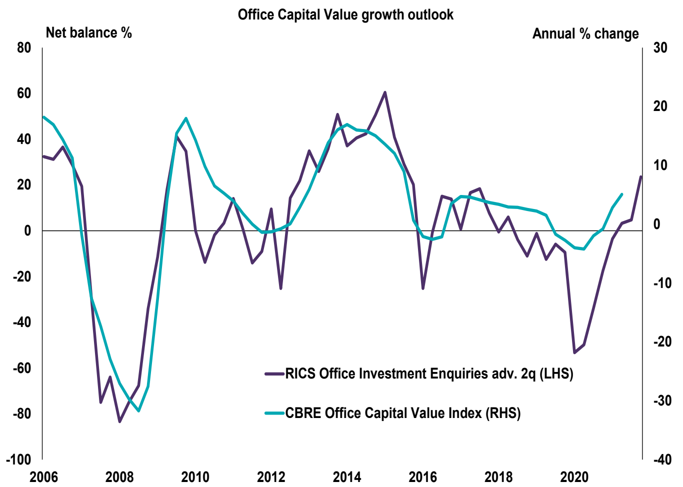

Chart 3 shows the relatiosnip between investment enquiries and capital value growth specifically in relation to the office sector. It therefore looks as if office capital value growth (currently at 5% yoy) will continue to gain impetus in the near term, and possibly appoach the 10% mark going forward.

Residential Property Market

Commentary

Despite growing macro headwinds and a noteworthy rise in mortgage rates of late, the residential sector continues to display positive demand trends for the time being. The new buyer enquiries series from the RICS Residential Market Survey is consistent with a still solid demand backdrop at present, having posted eight consecutive positive monthly readings. Alongside this, supply remains restricted, with average stock levels close to historic lows while new instructions have failed to pick-up in a consistent manner over much of the past twelve months. Consequently, there is little evidence of price growth losing momentum at this stage as survey feedback continues to depict strong increases across all parts of the UK. That said, given the UK economy is expected to flirt with recession over the coming twelve months, the consensus view is that price growth will slow from here, even if the survey data is yet to portray any significant loss of momentum.

Chart 1) House prices

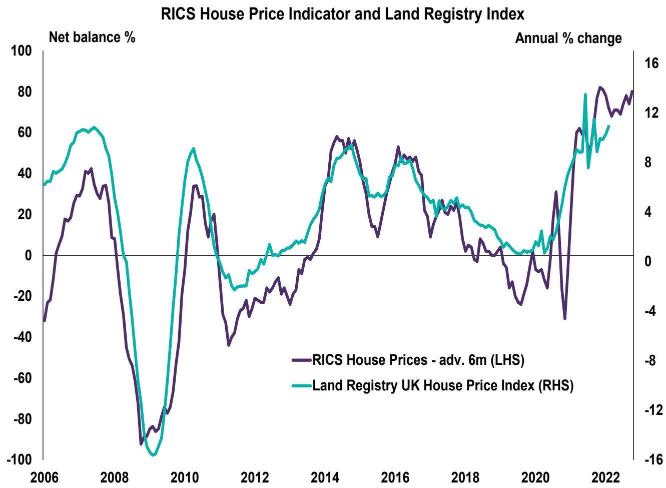

Chart 1 tracks the RICS Price net balance against the official house price index from the Land Registry, with the former advanced forward by six months to demontrates its lead over the official data. Seeing as the April survey price metric hit a nine-month high, it seems likely that the annual growth rate in national house prices will remain close to double digit territory over the coming months (currently at 9.8%).

Chart 2) Regional prices

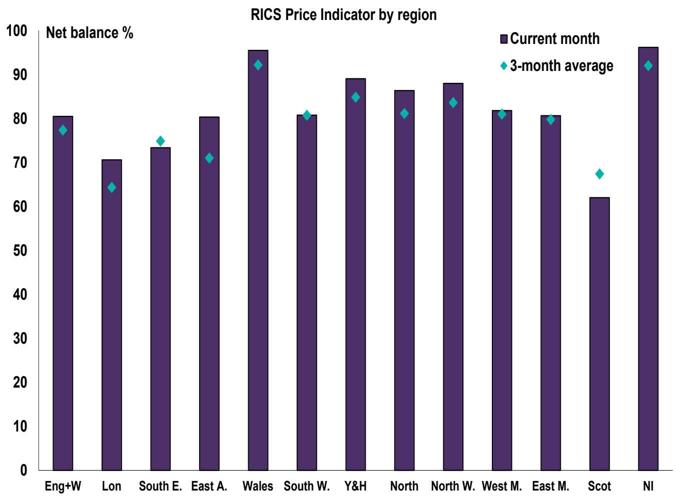

Chart 2 shows the breakdown of the RICS Price balance at the regional/country level. As with the national picture, the vast majority of areas continue to see elevated readings of late, indicative of house price inflation at least maintaining its current pace over the coming months.

Chart 3) Sales volumes

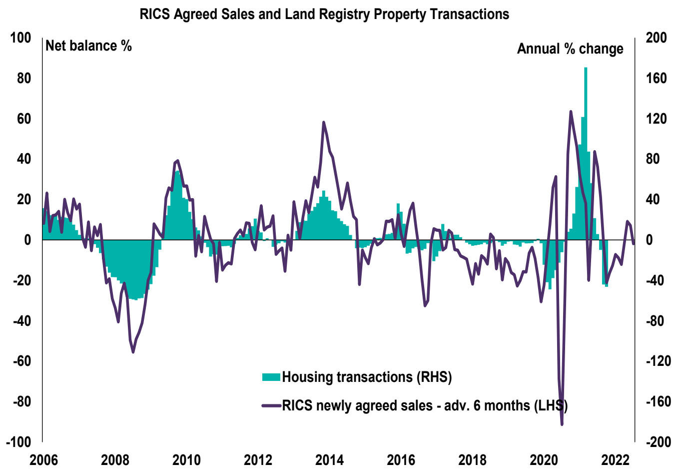

Chart 3 plots the RICS agreed sales net balance along with the residential sales volumes figures produced by the Land Registry. The recent trend in the RICS survey data on sales suggests that transactions will be broadly flat, in year on year terms, toward the latter stages of 2022.

Real estate indicators

	Latest reading	2022 RICS Economics forecast (end of year)	Commentary
All-property Index (annual growth rate)			
Capital values *Source: CBRE*	**+17.4%**	**+8%**	All-sector capital value growth was running at an annual pace of just over 17% at the end of March, the sharpest rate of increase since 2010. A further acceleration may be seen in the near term, although base effects will likely cause to rate to soften somewhat by the end of the year.
Rents *Source: CBRE*	**+3.9%**	**+4.5%**	Headline rental growth reached 3.9% yoy in March, having accelerated markedly over the past six months. As a result, this is now the fastest pace of rental growth recorded since 2016.
Offices			
Capital values *Source: CBRE*	**+5.6%**	**+7%**	Office values are up by nearly 6% on annual basis currently, and have now completely retraced the ground lost earlier in the pandemic.
Rents *Source: CBRE*	**+1%**	**+2%**	Office rents began to pick-up in July 2021, having suffered several month on month falls through 2020 and early 2021. At present, office rents are up by an annual 1%, with growth gaining impetus in recent months.
Industrial			
Capital values *Source: CBRE*	**+38.2%**	**+20%**	Industrial capital value growth continues to reach fresh record highs, with the March data pointing to an extraordinary 38% increase over the past year. On the basis of survey expectations data, this rate of growth may now be at its peak
Rents *Source: CBRE*	**+11.1%**	**+10%**	Rents across the industrial sector have risen by a record 11% over the past year, with the near term outlook remaining buoyant.
Retail			
Capital values *Source: CBRE*	**+13.3%**	**+12%**	Retail capital values have recovered noticeably over recent months, rising 13% in annual terms. It should be highlighted however, that retail values are still 7% below pre-pandemic levels.
Rents *Source: CBRE*	**-0.34%**	**+1%**	Rental growth remains subdued within the retail sector, albeit much of the negativity of recent years has now diminished. It looks likely that rents will end the year slightly up in annual terms for the first time since 2017.
Hotels			
Price index *Source: Costar*	**+5%**	**+6%**	A turnaround in hotel capital values has been reported of late, while the outlook appears increasingly positive for this previously struggling sector.
Rents *Source: RICS GCPM*	**no data**	**+2%**	RICS members anticipate hotel rents recovering at a reasonably solid rate going forward.
Residential			
House price index *Source: Land registry*	**+9.8%**	**+6%**	House price indices continue to post strong rates of inflation, with survey data suggesting close to double digit gains will be sustained in the near -term at least.
Rents *Source: Zoopla*	**+11%**	**+10%**	Rents continue to rise sharply for private residential accommodation, with the strength of projections from the RICS survey suggesting this trend will be maintained in the near-term.

Supply and demand

	Latest reading	12-months ago	Commentary
Offices			
Vacancy rate *Source: Costar*	6.8%	5.6%	Although demand conditions appear to be strengthening of late, net absorption remains negative for the time being, resulting in vacancy rates edging up slightly across the office sector.
Occupier demand *Source: RICS GCPM*	+30% net balance	-34% net balance	The RICS office occupier demand indicator hit a near seven-year high in Q1, indicative of tenant enquiries gaining significant momentum over the quarter (albeit this is coming from a relatively low base).
Investment enquiries *Source: RICS GCPM*	+23% net balance	-18% net balance	The latest net balance capturing investor demand for offices was the strongest since 2015, suggesting the rate of growth has accelerated markedly at the start of the year.
Industrial			
Vacancy rate *Source: Costar*	3%	3.1%	Industrial vacancy rates continue to reach fresh all-time lows, with a lack of supply a key driver in the exceptionally strong rates of capital value and rental growth seen in recent months.
Occupier demand *Source: RICS GCPM*	+60% net balance	+57% net balance	The tenant demand indicator from the RICS survey remains buoyant, but just appears to have plateaued over the past couple of quarters. As such, this suggest occupier demand remains robust for industrial space, but is no longer accelerating.
Investment enquiries *Source: RICS GCPM*	+62% net balance	+58% net balance	Investors continue to display strong interest in industrial assets, which remains the standout performer with regards to returns in comparison to the other mainstream market sectors.
Retail			
Vacancy rate *Source: BRC*	14.1%	14.4%	Retail vacancy rates are now inching lower, although they remain elevated when placed in a historical context. Retail warehouses appear to be leading the recovery story across the sector, along with standard shops. On the other side of the equation, shopping centres remain altogether more challenging.
Occupier demand *Source: RICS GCPM*	-1% net balance	-55% net balance	Occupier demand has now stabilised across the retail sector, with the Q1 RICS reading representing the least downbeat figure seen since early 2017.
Investment enquiries *Source: RICS GCPM*	+3% net balance	-44% net balance	Investment demand appears to be turning a corner now with regards to the retail sector, as Q1 marks the first time in which the enquiries indicator has been out of negative territory in around 5 years.

Further reading:

RICS UK Economy and Property Update

RICS UK Commercial Property Market Survey

RICS UK Construction and Infastructure Survey

RICS UK Residential Market Survey

Net balance data:

- Net balance = Proportion of respondents reporting a rise in prices minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%).

RICS Economics forecasts are formulated using forward looking indicators from the UK Commercial Property Market Survey. This includes both twelve month point estimates and net balance data.

Delivering confidence

We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

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