



Q3 2021: UK Commercial Property Market Survey

Offices beginning to see some green shoots while industrials remain robust

- Tenant demand edges up across the office sector for the first time since before the pandemic
- Industrials, multifamily and data centres lead the way in terms of capital value projections
- Around two-thirds of survey participants now feel the market is in the upturn stage of the property cycle

The Q3 2021 RICS UK Commercial Property Survey results show a further gradual improvement in overall market sentiment over the quarter, perhaps best summarised by the fact nearly two-thirds of respondents now sense the market is in an upturn phase of the cycle (an increase on 56% back in Q2). That said, the retail sector in aggregate remains under pressure according to the latest feedback, even if some of the negativity has diminished since earlier in the year.

At the headline level, a net balance of +18% of respondents cited an increase in tenant demand during Q2. When disaggregated by sector, industrial space unsurprisingly continued to attract the strongest pick-up in demand, posting a net balance +56% (compared with +63% previously). Alongside this, occupier demand increased slightly across the office sector, evidenced by a net balance of +7% of respondents seeing a rise. Significantly, this marks the first outright positive reading for the sector since early 2018, albeit the latest improvement is likely coming from a low base given the steep falls reported throughout the past year. Meanwhile, the retail sector continues to display subdued tenant demand trends, although the latest net balance of -18% does represent the least negative reading since 2017.

In terms of availability, respondents continue to report rising vacancies across the office and retail sectors (posting net balances of +28% and +34% respectively). Even so, in both cases, the rate at which availability is rising has slowed compared with previous quarters (in net balance terms). Meanwhile, the supply of available industrial space continues to fall sharply, with the latest net balance coming in at -38%. On the back of this, the use of incentives remains on a firmly downward trajectory across the industrial sector, while office and retail landlords continue to raise the value of inducement packages on offer the tenants.

For the coming twelve months, respondents envisage roughly 6% growth for prime industrial rents, while those for secondary industrial space are expected to pick-up by 4% (an increase on projections of 3% growth returned last quarter). For the office sector, prime rents are now seen rising by 1% (a turnaround on an expected 1% decline last time), while secondary office rents still display

negative expectations at -2% (although less downbeat than -4% previously). For the retail sector, prime rents are now projected to fall by 2%, while secondary rents are expected to decline by 5% (with both turning less negative compared to respective forecasts of -6% and -8% in Q2). On a regional view, in terms of the expected direction of changes in rents, these projections are consistent across the whole of the UK. However, one interesting distinction that can be made is that the recovery in prime office rents across London is anticipated to run slightly ahead of all other broad regional aggregates.

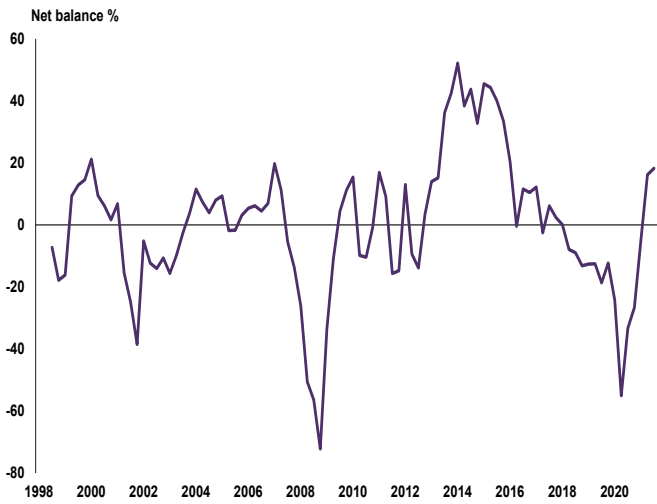
On the investment side of the market, headline demand rose for a third successive quarter, with the latest net balance for enquiries picking up slightly to +19% (from +15% beforehand). When broken down, investor demand for offices remains stable, while retail is slightly negative and industrial properties continue to see strong growth in investor appetite. This is also reflected in the data on overseas investment enquiries.

As a result, capital value expectations remain firmly positive for both prime and secondary industrial assets for the year ahead. While prime offices are now expected to see some modest capital value appreciation, projections remain negative for secondary. Again, both prime and secondary retail values are still expected to fall, albeit these negative projections have at least been scaled back relative to the Q2 results.

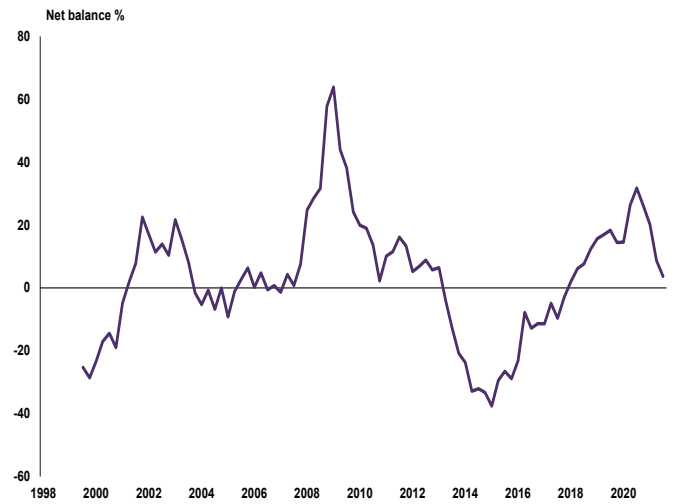
Looking at some alternative sectors, already solid capital value expectations strengthened further across multifamily residential, with a net balance of +57% of respondents now anticipating growth over the next twelve months (up from +37% last time). Meanwhile, data centres and aged care facilities also display strong expectations, returning net balances of +53% and +47%. Furthermore, respondents now foresee hotels and student housing posting capital value gains, with expectations turning from neutral to positive in the latest results.

Commercial property - all sectors

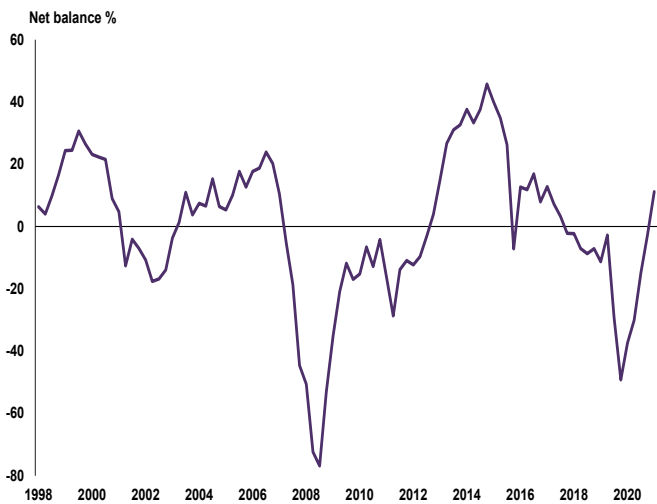
Occupier Demand



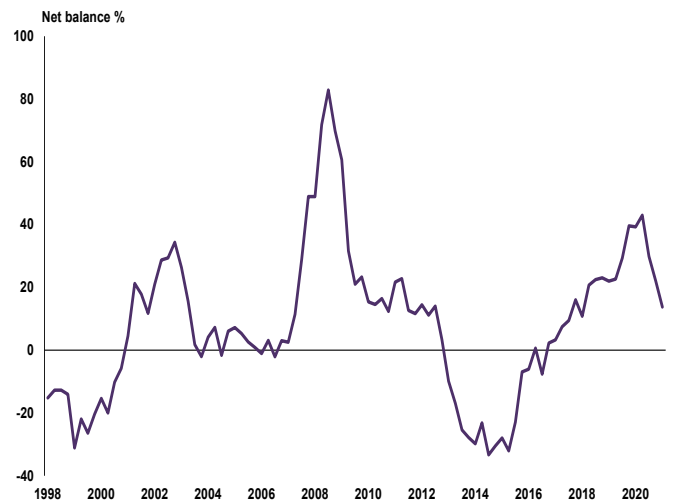
Availability



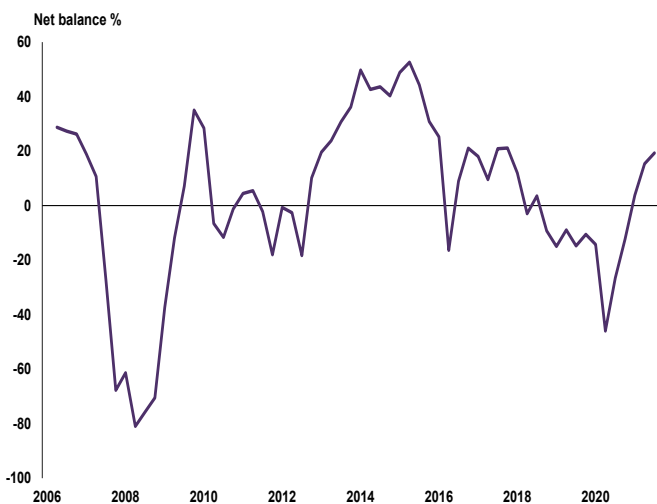
Rent Expectations



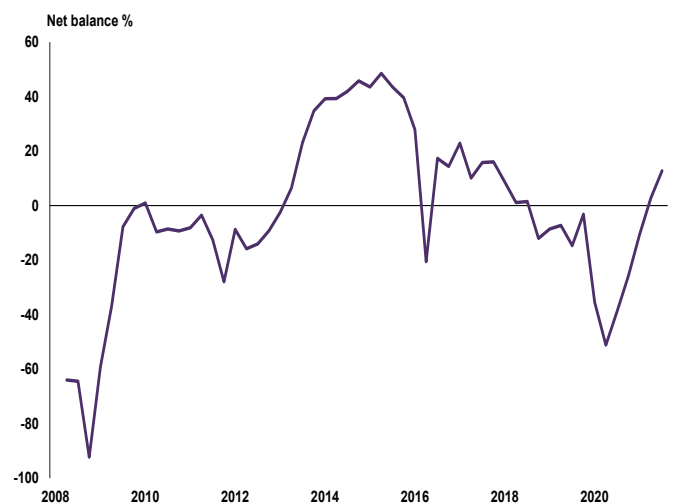
Inducements



Investment Enquiries

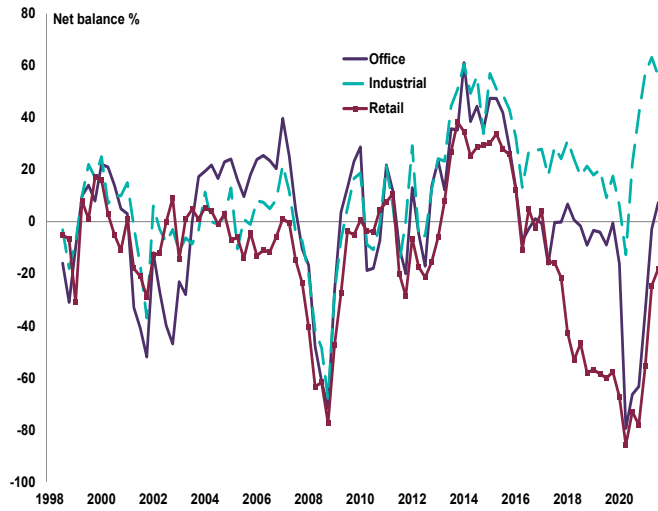


Capital Value Expectations

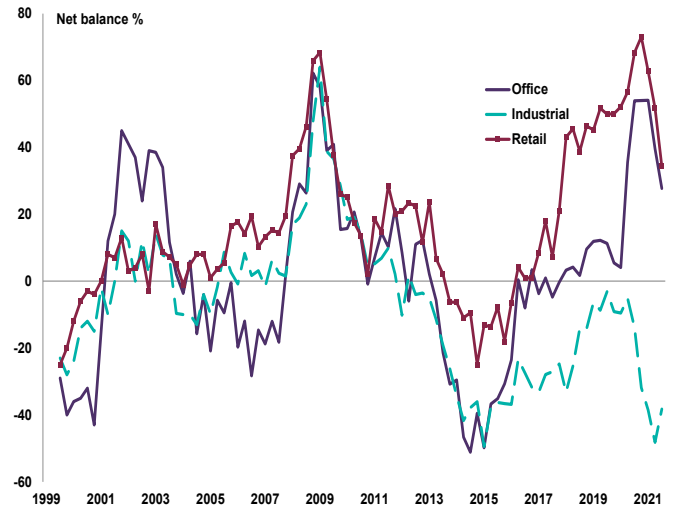


Commercial property - Sector Breakdown

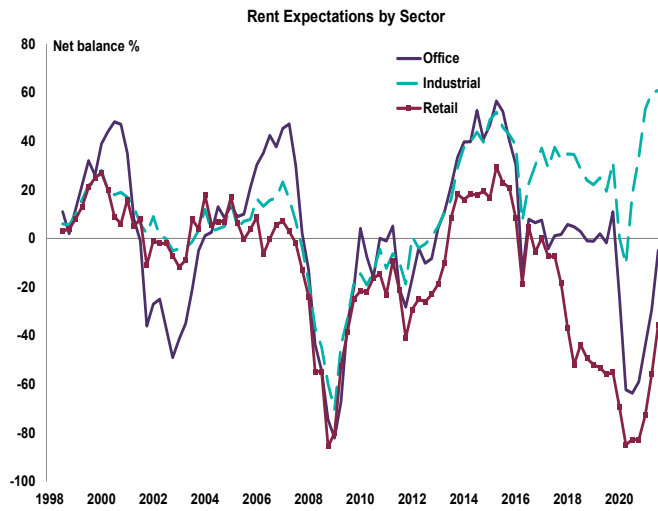
Occupier Demand



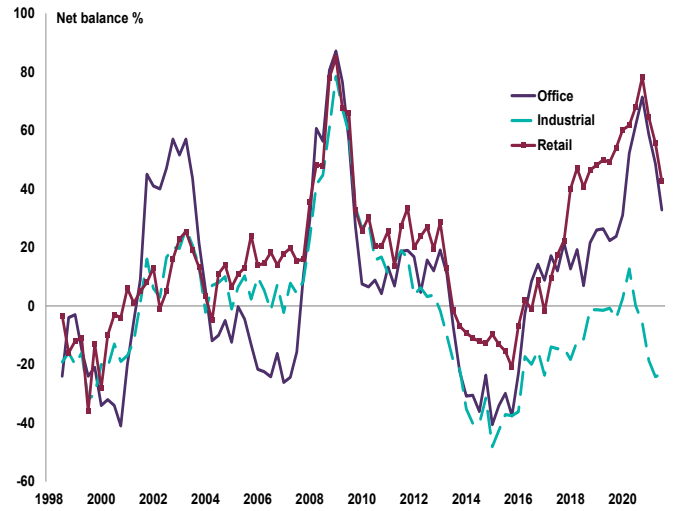
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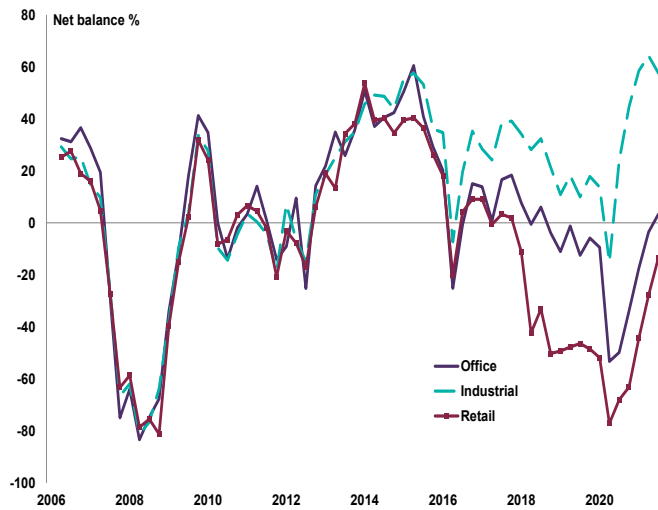
Rent Expectations



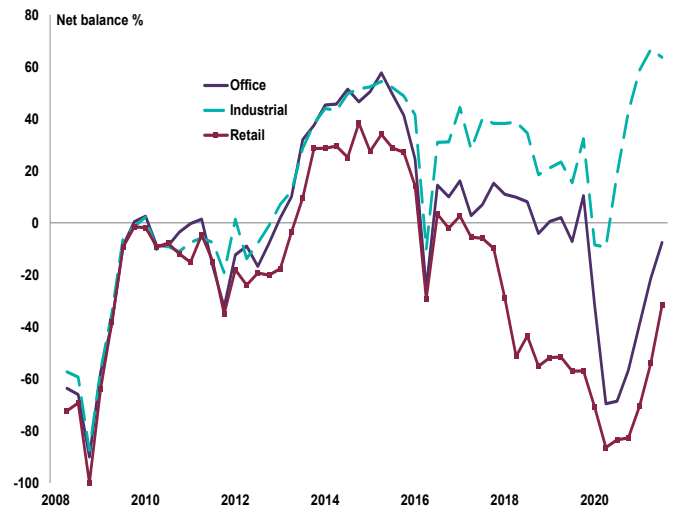
Inducements



Investment Enquiries

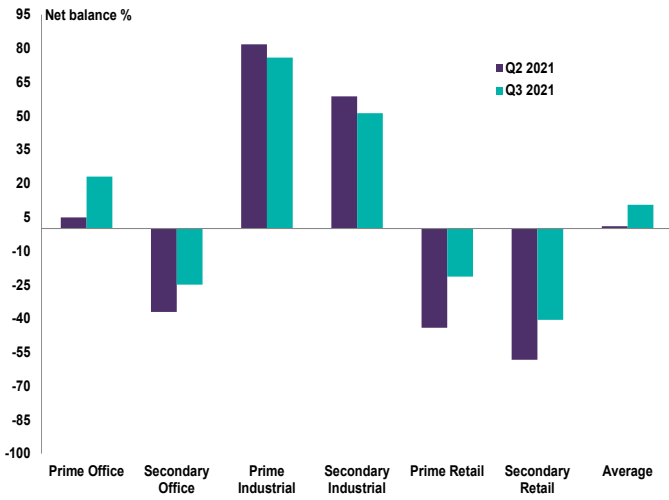


Capital Value Expectations

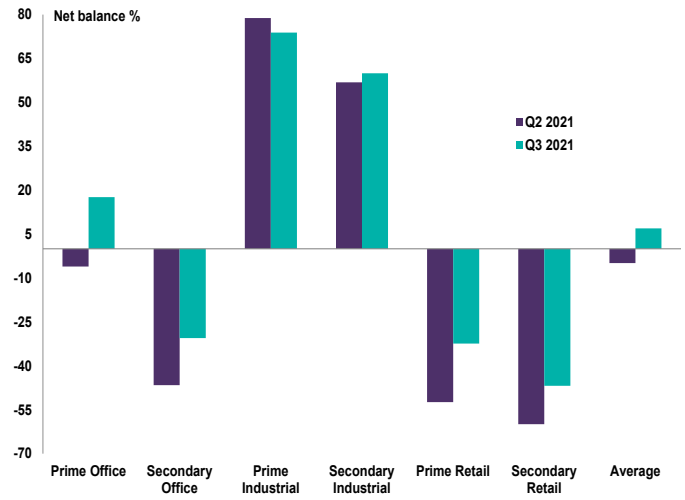


Commercial property - Additional Charts

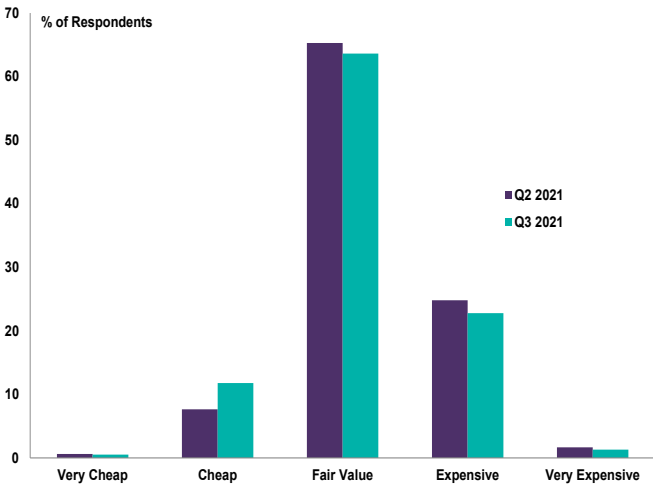
12 Month Capital Value Expectations



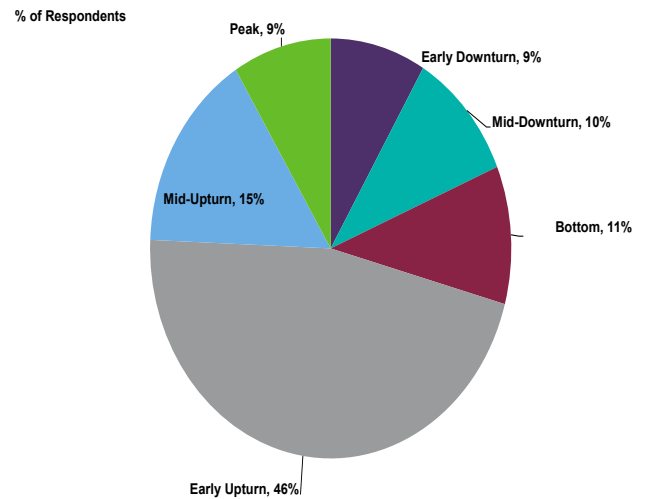
12 Month Rent Expectations



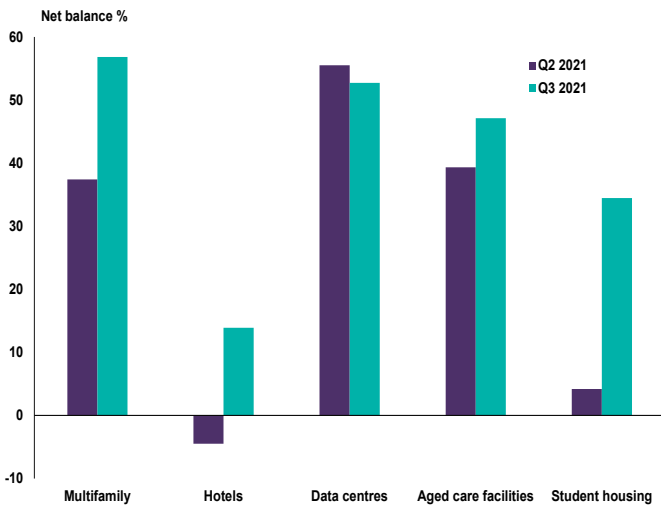
Market Valuations



Property Cycle



12 Month Capital Value Expectations - Alternatives



Chartered Surveyor market comments

East Midlands

Clive Faine, Milton Keynes, Abbeygate Devts, cfaine@abbeygate-dev.co.uk - Uncertainty remains on the recovery from Covid - the shortage of labour and materials and associated cost rises in the construction industry. Environmental costs, planning reform uncertainties. World events and the related politics adds to the uncertainty.

David Mcneill-Richardson, Bedford, SHS, dmnr@stamford-house.co.uk - Strong investment demand. Lack of stock.

Garry Wood, Newark, Wood Moore & Co, garry@woodmoore.co.uk - Polarisation between the various sectors continues with industrial occupier and investor demand still outstripping supply and available stock diminishing rapidly. Office and retail continues to be subdued although lower value secondary retail occupier demand is showing signs of increased activity.

Gilbert Harvey, Kettering, Budworth Hardcastle, gharvey@budworthhardcastle.com - Industrial market is white hot, both investment and occupational, although some obsolescence issues starting to appear on older buildings.

Ian Mcrae, Northampton, Chadwick McRae, icm@cmcre.co.uk - The shortages of warehouse space are now at crisis levels.

Richard Sutton, Nottingham, NG Chartered Surveyors, richards2011@virginmedia.com - No significant changes during the last quarter, banks not as pro active as we would have hoped. The impact of the government moratorium over rent recovery is now hitting smaller private landlords.

East Anglia

Daniel Musgrove, Stevenage, Brown & Lee, daniel.musgrove@brownandlee.com - Industrial market is very strong with increase in rents from good demand and lack of supply for both rental and purchase. Secondary retail very active, prime still difficult. Activity in the office market is at a low level but increasing month on month. Good demand for office suites around 1,500sqft.

Glenn Miller, Ipswich, Ipserv (Ipswich Borough Council), glenn.miller@ipserv.co.uk - Nervous market waiting reassurance from strong deals and guidance.

Hiedi Collis, Norwich, Arnolds Keys, hiedicollis@yahoo.co.uk - We are seeing a small return to the office, with perhaps more to come. Footfall on the high street is also improving.

Richard Bertram, Ipswich, Beane Wass & Box, rbertram@bw-b.co.uk - Speculative purchasers/funds are contributing to strong prices in the auction market which are not being noticed in the investment market, partially as a result of rather limited investment stock.

Samuel Kingston, Norwich, Roche Surveyors, sam.kingston@rochesurveyors.co.uk - The market conditions remain very similar to the start of the year. The warehousing and logistics market remains buoyant with limited options in Norfolk for larger occupiers. The office market has seen more activity during the first half of the year, than for the whole of 2020, with owner occupiers at the forefront. The demand for investments remains positive, due to prevailing low interest rates.

London

Adrian Macarty, London, Buckland Estates LP, admssltd@gmail.com - The general market has been slow throughout the traditional summer lull, and companies rationalising their commercial property needs in light of the impact of Covid 19 and change in working practice.

Christopher Aquilina, London, Spring4, caquilina@spring4.com - The occupational office market appears to be recovering very rapidly.

Christopher Jago, London, Houston Lawrence, chris.jago@houstonlawrence.co.uk - Unstable market - anticipated post summer recovery very slow to come to fruition.

Derek Gillmore Frics, London, Stuart Neils, derek.gillmore@hotmail.com - It is too soon to give accurate indications on all markets whilst most commercial companies are in the dark on what % of staff will return to work and when.

Duncan Locke, London, McWhirter Locke Associates, Chartered Surveyors, duncan@mcwhirterlocke.com - In the last two weeks there has been a noticeable increase in office occupation by staff in Central London. This is partly because some organisations have required staff to return to the office, including businesses in the property sector. As someone put it to me, but with important implications, last Thursday offices in London were one third full but the pubs after work were 100% full. The point being that those coming back to work want to take part in the social aspect of an office.

Helen Shellabear, London, Shellwin Real Estate, helen@shellwin.co.uk - I think the answers to some of these questions are predicated on how investors view impending 'game changer' issues such as office fit outs and climate change. For investors willing to invest properly to create the highest quality product, they should find their capital well invested for the long term but, those seeking to ignore these issues and create basic fit outs or ignore net zero carbon, face more risk as they will become redundant.

Kim White, London, Kinney Green, k.white@kinneygreen.com - Uncertain demand for offices as the economy recovers and tenants re-assess work patterns.

Martin Acton, London, Howard Harrison Ltd, martin.acton@hretail.uk - Retail is still very tricky - prime is picking up on demand but pricing still heavily discounted.

Martin Brownstone, London, Marston Associates, mb@marstonassoc.com - Stable.

Nick Hiles, London, Edmund De Rothschild, n.hiles@reim-edr.com - Very nervous.

Nick Mager, London, Morgan, nmager@morganman.com - Quite a fevered market at present. Most vacant units going under offer in past 2 months.

Ross Hepburn, London, C&W, ross.hepburn@eur.cushwake.com - Market conditions bottomed out and corporate demand improving. Investor confidence improved and foreign investment increasing.

Sean Dempsey, London, Boulbee LDN Capital Limited, sean@boulbeeldn.co.uk - The positive, post-pandemic employment situation is clearly buoying many sectors of the economy. It remains to be seen whether the imminent effect of the ending of intermediate Brexit arrangements dampens the outlook. Let's hope that the Government takes a brave, pragmatic approach, focused on the economy's needs, rather than a purely political one.

Chartered Surveyor market comments

Terence Firrell, North West London, Terence Firrell Limited, terence@terencefirrell.co.uk - I think the residual effects of the Covid pandemic have not yet fully impacted upon the general economy and property sector. Future market conditions cannot therefore be forecast with accuracy. I anticipate that the commercial property market will remain uncertain until the major investors eg. pension funds indicate their future direction in terms of investment strategies. Hedge funds and private equity firms will continue to seek opportunities where target organisations have property assets.

Toby Fuhrman, London, JLL, toby.fuhrman@eu.jll.com - The West End occupational market appears to be strengthening as people come back to the office.

North East

Barry Nelson, Durham City, Northern Trust Company Limited, bnelson@whittlejones.co.uk - The multi-let industrial market continues at pace with very low levels of available supply to rent. Enquiry levels have slowed but this is thought to be more down to the lack of advertised space rather than demand decreasing. The small unit office market is seeing a low level of transactions completing, in total contrast to the industrial sector.

David Downing, Newcastle Upon Tyne, Sanderson Weatherall LLP, david.downing@sw.co.uk - The NE property market still demonstrates some signs of uncertainty. Office occupancy levels are still low, hospitality and leisure are busy, but perhaps not quite back to pre-pandemic levels. Logistics and industrial space remains the driver.

Graham Hall, Durham, Graham S Hall Chartered Surveyors, ghall@grahanshall.com - Still very active.

Julie Wallin, Darlington, Carver Commercial Chartred Surveyors, juliew@carvergroup.co.uk - Confidence is returning generally in our region with strong demand for industrial investment opportunities and development opportunities for residential conversion/investment being particularly active.

Malcolm Holmes, Sunderland, ABP Property Consultants, malcolm@abppco.com - Despite heavy public sector spending, there is still a reluctance for any private speculative construction of any type.

Nikolaj Dockree, Harrogate, Dockree Assocaites, najdockree@yahoo.co.uk - The market is going through a major rebalance with home working accelerating the repositioning of the high street. The continuation of home working presents headwinds to retail and offices with industrial providing a ray of bright light.

Simon Haggie, Newcastle Upon Tyne, Knight Frank LLP, simon.haggie@knightfrank.com - Logistics/industrial sector starting to level off a little in terms of enquiry levels, but still better than pre-covid era. Building costs are increasing by the week and contractors are having to push out build periods because of material shortages, particularly steel and cladding. Investment yields for logistics stock are at levels we have never witnessed before in our region.

Trevor Cartner, Durham, Helios, cartner@heliosproperties.com - The market is rebounding quickly and reaching a mini peak amidst investor optimism, but ahead of real economic data post Covid.

North West

Allan Pelan, Liverpool, Core Property, allanpelan@corepmc.com - Market feels like it is recovering but various threats may hinder progress.

Anthony Brown, Nelson, Lancashire., Liberata, anthony.brown@liberata.com - The geographical area in which we primarily work (for the Local Authority primarily in Pendle) is an area which historically and currently, has shown marked signs of decline, in terms of retail and office markets. The LA has however secured Towns Deal funding required to completely overhaul the town centre make up of commercial property.

Mark Litherland, Liverpool, Sefton Council, mark.litherland@sefton.gov.uk - Secondary retail demand is consistent.

Nicholas Warriner, Liverpool, Avison Young, nicwarriner@sky.com - Industrial yields are very strong and continue to strengthen with little sign of decreasing.

Oliver Moorhouse, Manchester, Moorland property Solutions Ltd., om@moorlandps.co.uk - Industrial property is in huge demand with limited stock and increasing rents. Office property is currently quite stagnant but my instinct is that values and rents will increase as staff return to the office and the economy recovers. I consider the outlook to be positive and anticipate strong demand for commercial property.

Paul Dignan, Blackburn, Lea Hough Chartered Surveyors LLP, paul.dignan@leahough.co.uk - Industrial = high demand. Offices medium demand. Retail = Low demand.

Scotland

Alex Robb, Aberdeen, A B Robb Ltd, alex@abrobb.com - The Green party seem to be influencing Scottish government policy on oil and gas development which is impacting on the local property market. They do not seem to grasp the fact that we import the majority of our fuel and we need to transition in an orderly fashion over the medium term. The sacrifice in return for support of another referendum - priorities!

Gavin Anderson, Glasgow, DM Hall LLP, gavin.anderson@dmhall.co.uk - Industrial property vacancy around Glasgow has hit a record low level, whilst construction materials are in short supply and occupier demand and investor demand is high, which has resulted in rental and capital growth on industrial assets. We have seen some significant rental growth on retail convenience store investments in the last 12 months. We have also witnessed competitive bidding for office buildings in the Park Area over the past year.

Ian Henderson, Glasgow, Jacobs, ianjhenderson@aol.com - Fair to middle.

South East

Alison Owen, Maidstone, Martine Waghorn Chartered Surveyors, ako@martinewaghorn.co.uk - The industrial market continues to see strong demand but activity is constrained by the lack of supply. New developments focused on warehousing are underway in the County. Flexible office space that can be adapted for tenant requirements continue to receive good interest from prospective occupiers.

Chris Lockyer, Southampton, FRC Ltd, clockyer@btinternet.com - Locally booming.

Denise Ford, Rochester, Michael Parkes Surveyors Ltd, dford@michaelparkes.co.uk - Curiously we have had demand for retail from those exiting the residential market, particularly in secondary locations.

Chartered Surveyor market comments

Jeremy Braybrooke, Southampton, Trinity Rose Commercial, j.braybrooke@trinity-rose.co.uk - The almost overwhelming demand for cheaper secondary shops seems to have run its course for the time being, but conversely the demand, and prices offered, for freehold property is going up. Signs of more retail being converted to alternative uses, such as medical, educational, leisure, residential etc, and different styles of retailing driving a demand for properties that are rather scarce, ie roadside, lots of car parking, large scale buildings etc.

Keith A Nelson, Sevenoaks, Salisbury & Co, keith@salisburyand.co - There is still a great deal of uncertainty generally and this is impacting on confidence.

Mark Stretton, St Albans, Apprise Property Limited, markstretton@appriseproperty.co.uk - Just coming out of another lockdown, the end of furloughing imminent, significant issues with material supply shortages & logistics plus resultant rise in inflation. Add a very quiet period of marketing / enquiries over the summer holidays culminate in an uncertain next quarter. I hope following the return from holiday, the enquiries will improve within all sectors.

Patrick Dempsey, Portsmouth, University of Portsmouth, fosseproperty@gmail.com - Not enough confidence to see any speculative building.

Peter Ridsdale Smith, Tunbridge Wells, Bracketts, peter.ridsdalesmith@bracketts.co.uk - The market remains steady. Industrial demand good but weakened a bit. Offices still a struggle. Retail patchy and business rates often are an impediment. Investment market has picked up lot and best offers arose on two recent deals.

Philip Hodgson, Chelmsford, Philip Hodgson & Co Ltd, phil@phrics.co.uk - Unsettled.

Russell Mogridge, Southampton, Vail Williams, rmogidge@vailwilliams.com - Twenty3 Brunswick refurbishment of 65000 sqft offices will provide the first BREEM excellent office building in the City and set to break the £25psf barrier. A number of industrial deals completed creating very low supply.

Simon Browne, Brighton, Crickmay, scb@crickmay.co.uk - Improved owner occupier demand for small prime offices, increased investor demand for secondary mixed investments with retail/commercial and resi. Prime retail investor demand still weak.

Tony Chalkley, South East, Grant Mills Wood, tonyc@grantmillswood.com - The industrial market has really taken off post pandemic with demand in London and the South East easily outstripping supply. We are seeing bidding wars for available buildings which, inevitably, pushes up rents.

William Andrews, South East, KLM Real Estate, wandrews@klm-re.com - Ever widening acceptance in the occupational and investment markets that retail warehousing is a resilient sub-sector has improved pricing. From a consumer confidence perspective, parts of the leisure sector (cinemas etc) are still in the early stages of its recovery whereas there's strong occupier demand in much of the food and beverage sub-sector nationally.

South West

Andrew Kilpatrick, Swindon, Kilpatrick & Co, a.kilpatrick@kilpatrick-cpc.co.uk - Swindon's commercial market has seen a return of activity following the end of the holiday season, but confidence is fragile, particularly in the retail and office markets.

Anne Brennan, Bournemouth, Sibbett Gregory, anne@sibbettgregory.com - Signs of improvement.

Claire Hampson, Bury, JD Sports Fashion plc, claire.hampson@jdplc.com - Retail: significantly negatively affected by Covid19; further adjustments still to come.

Daniel Smethurst, Swindon, Smethurst Property Consultants, daniel@smethprop.co.uk - Cautious optimism - SME market still performing well - corporates still in limbo in respect of working practices going forward. Transactions tending to be drawn out. Planning backlog is frustrating development.

Giles Nash, Gloucester, Alder King, giles.e.nash@gmail.com - Stable.

Holly Boulton, Bristol, Burston Cook, holly@burstoncook.co.uk - Very busy in the retail sector as that is what I specialise in, lower end retail rent rolls £30k and below especially.

J Merriott, Dorchester, Symonds and Sampson, jmerriott@symondsandsampson.co.uk - The previous path of direction has changed post covid. Not sure where this will take us, but innovation in regard to working from home, labour and material shortages, climate factors and net zero carbon means a stepped change rather than a gradual change with I expect "London" activity now forming a greater part of the rural economies where it ceased to exist before.

Jon Bishop, Bristol, MJN South West Ltd, jon@mjnconsultancy.com - Varying.

Leslie Warren, Bristol, Arriva, warrenl@arriva.co.uk - Cautiously optimistic.

Oliver Workman, Cheltenham, THP Chartered Surveyors, oliver@thponline.co.uk - Industrial powering on with demand up and supply lowering. Office demand remains flat, awaiting the impact of the return of the workers in autumn. Large Town/City Centre retail remains tough. Overall feeling one of cautious optimism.

Robert McGuffie, Truro, RJM property and development consultants ltd, robert@rjmproperty.co.uk - Industrial market within Cornwall has significant supply shortages. Prices of labour and materials are increasing, placing additional pressure on viability of new schemes. Supply of materials and labour (or lack of) is having an impact on delivery of new developments, adding further to risks.

Stephen Matcham, Plymouth, Stratton Creber Commercial, stevem@sccplymouth.co.uk - Signs of early recovery, especially in industrial demand. Problem of shortage of supply in the South West. Many risky negative factors could impact on recovery, especially inflation and rising interest rates.

Tim Over, Bristol, f10 build, slashter100@gmail.com - Strong market currently.

Wales

Neil Taylor, Newport, Pobl, neil.taylor@poblgroup.co.uk - Housing development process complex and challenging with lack of LA resource and SAB legislation delaying determination. WG's net zero target will impact on the cost of development, in an already frustrated market place, unprecedented build costs etc.

West Midlands

Charles Warrack, Birmingham, Johnson Fellows, charles.warrack@johnsonfellows.co.uk - There is more confidence and activity returning across the office and retail markets. The industrial sector has remained strong throughout the COVID-19 pandemic.

Chris Keye, Birmingham, Darby Keye Property, chris.keye@darbykeye.co.uk - Industrial and logistics sector still experiencing heightened levels of demand and falling levels of supply.

Chartered Surveyor market comments

David Latham, Stoke On Trent, CPC Project Services, david.latham@cpcprojectservices.com - Inflation is running high, fuelled by material shortages. Residential projects may no longer be viable without additional government funding.

Stephen Wilson, Skipton, WilsonBruce, stephen@wilsonbruce.co.uk - Fractured market with selected opportunities for the brave hearted.

Heidi Colley, Birmingham, Kenchington Ltd, heidi@kenchingtonltd.co.uk - Secondary retail is holding up well with localism and new working practices driving footfall to near 2019 levels.

I D Humphries B.Sc.(Est. Man.) Frics, Worcester, Ian Humphries, Chartered Surveyor, idh@ianhumphries.co.uk - Market sentiment falling due to end of stamp duty holiday for residential, which affects public perception and feeds into commercial markets. Also, inflation expected to increase to 4.5% over the next year measured by RPI.

Yorkshire & the Humber

Alex Mcneil, Huddersfield, bramleys, alex.mcneil@bramleys1.co.uk - Town centre retail in a transition but starting to re-evolve. Shortage of town centre offices and secondary market more muted. Industrial market is the star performer with strong investor & occupier demand.

Barry Crux, York, Barry Crux and Company, barry@barrycrux.co.uk - The market has shown little sign of improving for the whole of 2021. There have been a few lights on the horizon over the last few weeks. However, confidence in the business sector as a whole is still very low and fragile. Far fewer deals, either lettings or sales than was the case pre-pandemic. The real hope for a recovery lies in having no further lockdowns, of whatever type, nor further world crises. Confidence needs to be strengthened significantly.

Douglas West, Leeds, ATC Properties, douglas.west@hotmail.co.uk - Improving.

Information

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