

COMMERCIAL PROPERTY MARKET REVIEW

JUNE 2022



QUALITY IS KEY FOR LONDON OFFICE SPACE

After its pandemic-induced hibernation, London's office market has kicked back into life, with demand from Central London occupiers in Q1 2022 more than 34% above the five-year quarterly average, according to Savills.

As confidence returns to the office market, more Central London occupiers are increasing their total space (29%) than decreasing it (13%), although those seeking to remain at a constant level remain the majority (41%).

Office expectations have been reshaped by the pandemic, analysts suggest, with more occupiers now seeking the highest quality space. Around 90% of all new office lettings in London have been for buildings of Grade A standard.

Meanwhile, office design and layout have also evolved post-pandemic in response to the rise of hybrid working, as well as a growing emphasis on wellbeing in the workplace.

WAREHOUSES RESILIENT DESPITE CHALLENGES

Warehouses can maintain their recent strong performance, industry insiders are predicting, despite the twin threats from supply and demand currently weighing on the market.

Supply chain disruption has driven sustained demand for warehouse space by pushing more businesses to onshore their operations. Growing numbers of smaller e-commerce businesses have also helped fuel strong demand.

As a result, vacancy rates are now 'critically low', according to CBRE, at about 1.5%. Going forward, the supply of new stock is

likely to remain constrained given the difficulty in finding new sites and the delays involved in seeking planning approval.

Conversely, demand could present a challenge, after Amazon announced in May that it had overextended during the pandemic. The e-commerce giant took a quarter of all UK warehouse space leased in 2020 and 2021.

ROBUST RECOVERY FOR HOTEL INVESTMENT

UK hotel transaction volumes have exceeded £1.5bn in the first four months of 2022, according to research by Knight Frank, a 40% rise on H1 2021's total investment volume.

Portfolio hotel transactions represented almost 65% of investment activity, a significant year-on-year rise, while private equity investors poured more than £1bn into the sector.

London secured about £750m of hotel investment in the period, significantly boosted by the sale of Point A Hotels for £420m. Another notable transaction saw Frogmore and C1 Capital jointly acquire three hotels, including the Hilton London Olympia, for £150m.

The rest of the UK saw a similar level of activity (£800m); the Pig Hotel Group's acquisition by an affiliate of KSL Capital Partners for an undisclosed sum was one of the major transactions so far this year.

Philippa Goldstein, Senior Analyst at Knight Frank, pointed to a "robust recovery" for the sector. She commented, "With investors taking a long-term view, buoyed by the upturn in the cycle, investment levels are expected to remain strong throughout 2022, despite quality, sizeable single asset hotel stock remaining in short supply."

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

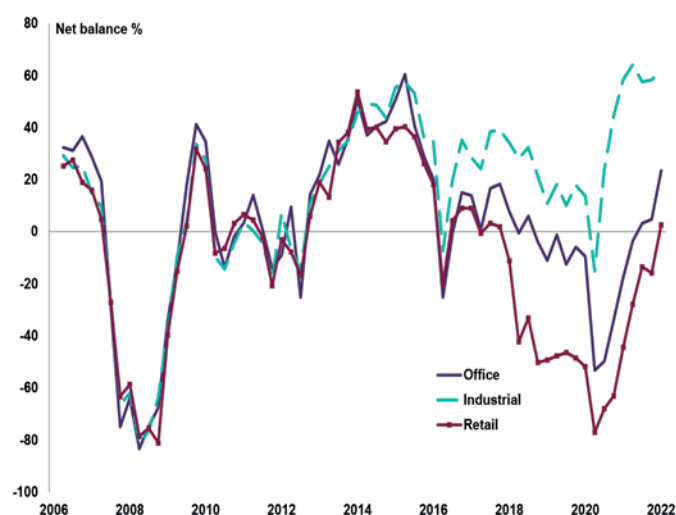
- Regions with the **highest** number of commercial properties for sale currently are **London** and **South West England**
- Scotland** currently has **1,065** commercial properties for sale with an average asking price of **£337,937**
- There are currently **1,528** commercial properties for sale in **London**, the average asking price is **£1,413,571**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,528	£1,413,571
SOUTH EAST ENGLAND	1,325	£686,189
EAST MIDLANDS	854	£940,956
EAST OF ENGLAND	878	£619,205
NORTH EAST ENGLAND	849	£295,666
NORTH WEST ENGLAND	1,438	£359,419
SOUTH WEST ENGLAND	1,544	£552,610
WEST MIDLANDS	1,067	£517,972
YORKSHIRE AND THE HUMBER	1,202	£353,154
ISLE OF MAN	53	£473,099
SCOTLAND	1,065	£337,937
WALES	806	£411,888
NORTHERN IRELAND	18	£326,720

Source: Zoopla, data extracted 23 June 2022

COMMERCIAL PROPERTY OUTLOOK

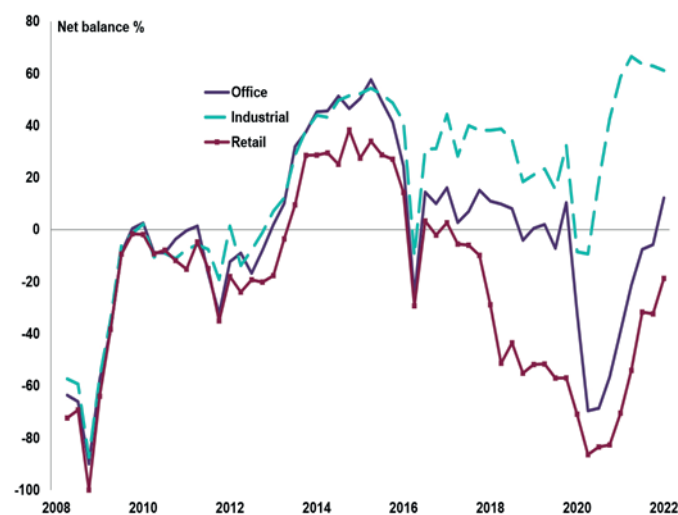
INVESTMENT ENQUIRIES – BROKEN DOWN BY SECTOR



- A net balance of +32% of contributors saw an increase in buyer enquiries during Q1
- This is up from a reading of +19% in each of the past two quarters and is the strongest figure posted since Q3 2015
- For the first time since 2017, the investment enquiries indicator is now in positive territory across each of the three traditional market sectors (office, industrial and retail).

Source: RICS, UK Commercial Property Market Survey, Q1 2022

CAPITAL VALUE EXPECTATIONS – BROKEN DOWN BY SECTOR



- For prime retail, the latest net balance of zero represents the first non-negative return in almost five years
- For the prime office sector, the net balance of +37% of respondents expecting a rise in capital values over the next twelve months is the firmest figure since Q4 2019
- Although sentiment regarding the twelve-month capital value outlook across the industrial sector remains robust, the latest net balances edged down slightly from recent highs.

All details are correct at the time of writing (23 June 2022)

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.