1 Basepoint Business Centre
Waterberry Drive
Waterlooville
PO7 7TH

01243 850975
enquiries@financialcompass.co.uk
www.financialcompass.co.uk

COMPASS

COMMERCIAL PROPERTY
MARKET REVIEW

JULY 2023

PRICING UNCERTAINTY WEIGHS ON THE MARKET

Savills recent 'Market in Minutes' review of the UK commercial property market has highlighted that pricing uncertainty has intensified due to a combination of fewer assets coming to market and transactions taking longer than usual, in what they describe as *'a relatively volatile market environment.'*

With interest rates elevated, the report says that despite several sectors currently representing good value, the incentive to buy has diminished and potential vendors are choosing to retain their properties at current pricing levels. Looking across all asset classes, this uncertainty *'continues to constrain investment volumes,'* according to the report.

Looking at UK investment volumes for 2023, Savills predict a 40% reduction versus the average halfway point over the last 4 years, which indicates volumes for H1 to be *'broadly in line with 2020.'* A recent lender and investor survey recording sectoral opinions on the direction of pricing over the next 6 months captures the challenges on pricing, highlighting huge variances in expectations, with a 30-40% spread for most sectors.

RETAIL MIDYEAR REVIEW

Commercial real estate services and investment firm CBRE has been analysing the performance of the UK retail sector in H1 2023. Against the backdrop of improving consumer confidence and stable average footfall, a polarisation of performance has been noted between larger regional and smaller convenience schemes, with the latter demonstrating the most resilience.

Looking at yields, these have remained stable for shopping centres and high streets, while retail park yields are starting to be squeezed. CBRE expect that by year end, improving consumer purchasing power, in the light of lower inflation, will result in an uptick in retail sales, benefiting certain occupiers – *'Well positioned occupiers are expected to continue to seek expansion opportunities in the right locations, with competitive tension and rental growth delivered in prime assets.'* With interest rates expected to peak later in the year and a *'clearer macroeconomic environment'* CBRE expect improved investor confidence in the market.

H1 HOTEL INVESTMENT

The latest Knight Frank analysis of the UK hotel sector shows that transaction volumes were around £860m in H1 2023, 60% below investment volumes for the same period one year earlier.

There is a challenging environment in the UK, reflective of the macro-economic environment, with sluggish GDP growth. Some deals have completed, as experienced hotel investors both domestic and from overseas, as well as HNWIs and family-offices, account for 70% of transaction volumes. Market strength remains for quality hotels in prime locations, as well as for hotels with repositioning and value-add potential. During H1, overseas investors accounted for 41% of the transaction volume, originating from Asia, Europe and the Middle East.

Looking forward, the report concludes, *'The next six months should see more robust levels of investment activity, with several hotel deals known to be under offer. The level of activity though will depend on how much further tightening of monetary policy is required in the short-term. Interest rates will remain high over the medium term, as such, with no quick solutions to servicing the debt, lenders will be exerting greater pressure on their borrowers to calibrate debt covenants.'*

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,149** commercial properties for sale with an average asking price of **£343,358**
- There are currently **1,831** commercial properties for sale in **London**, the average asking price is **£1,256,721**.

Source: Zoopla, data extracted 19 July 2023

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,831	£1,256,721
SOUTH EAST ENGLAND	1,596	£693,920
EAST MIDLANDS	849	£790,713
EAST OF ENGLAND	944	£581,904
NORTH EAST ENGLAND	824	£332,549
NORTH WEST ENGLAND	1,463	£416,422
SOUTH WEST ENGLAND	1,876	£566,463
WEST MIDLANDS	1,234	£610,705
YORKSHIRE AND THE HUMBER	1,246	£330,636
ISLE OF MAN	49	£447,945
SCOTLAND	1,149	£343,358
WALES	920	£449,360
NORTHERN IRELAND	3	£19,642

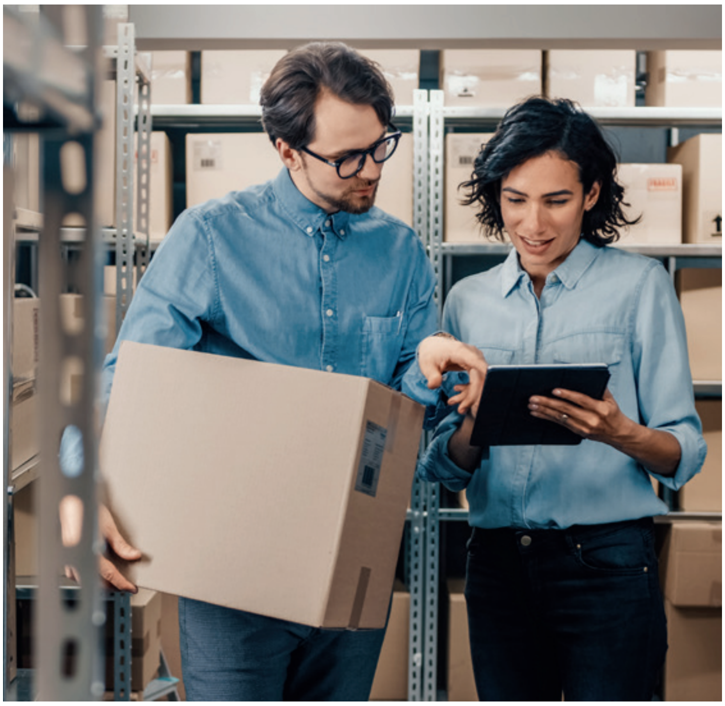
WAREHOUSE DEMAND TAKES A TUMBLE

New research from commercial property agent the CoStar Group has highlighted that for the first time, the number of firms choosing to withdraw from warehouse space has exceeded those occupying them.

Demand for UK warehouse space has fallen to its lowest point in 11 years, Director of Market Analytics at CoStar Group, Grant Lonsdale has deduced, *"With cost-of-living pressures weighing on consumers, many online and bricks-and-mortar retailers, as well as the third-party logistics providers that service them, are re-evaluating their storage and distribution space requirements in a bid to optimise overheads."*

At the same time, the availability of larger warehouses has been increasing at pace and is currently at a seven-year high. Amongst those reducing their space are ASOS and Boohoo Group, with the former announcing the closure of three smaller warehouses earlier this year.

Demand for UK warehouse space has fallen to its lowest point in 11 years



All details are correct at the time of writing (20 July 2023)