

# Commercial Property Market Review

January 2023



*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.*

## Commercial property deals at ten-year low

*Commercial property deals have collapsed to their lowest level in more than a decade, with just £7bn transacted in the final three months of 2022, according to CoStar.*

Investors have faced a series of shocks in the past year, including higher interest rates, the September 'mini-budget' and the prospect of a lengthy recession. Higher rates have caused borrowing costs to spiral, which has prompted some investors to stay on the sidelines while the market adjusts to higher rates.

Across the full year, spending on commercial property fell in every quarter. After £21bn was transacted in Q1, investment fell to £17bn in the second quarter and £11bn in the third. Of the £56bn transacted across the year, roughly a third was allocated towards offices.

Looking ahead, the researchers acknowledged that dealmaking is likely to remain slow in H1 2023. They also note, however, that activity could pick up in H2 if the economic outlook improves – possibly resulting in a full reversal of 2022.

## New Year recovery expected for hotel deals

*The outlook for the hotel sector is positive, newly released reports by Savills and Knight Frank suggest, with deals expected to keep recovering into 2023.*

Volumes dropped by 27.5% year-on-year in 2022, though there was a clear uptick in activity in the final quarter. As the new year market starts to take shape, investors looking for opportunities could move quickly when more stock becomes available, analysts predict.

Indeed, hotels are likely to remain an attractive investment, the reports suggest, despite tough economic conditions. Backed by resilient user demand and with the worst of the pandemic already navigated, hotels could serve as a hedge against inflation.

Tim Stoye of Savills, commented, *"Approximately £500m worth of hotel asset [deals], that we are aware of, are expected to complete in January, which would be a positive start to the year and marks the intentions of investors as they look to deploy capital into attractive opportunities."*

## Take-up of industrial and logistics takes off in 2022

*Take-up of industrial and logistics units over 100,000 sq. ft soared to 45.73m sq. ft in 2022, according to Savills's latest Big Shed Briefing, leaving the year 49% above the long-term annual average.*

2022 is now the sector's third best year on record, thanks largely to third-party logistics occupiers, who accounted for almost a third of all new leases, the highest proportion ever recorded. 86% of these units are considered grade A (significantly above the long-term average of 60%).

Supply currently stands at 25.6m sq. ft across 131 units and the nationwide vacancy rate is 3.96%, up slightly since the end of 2021. Moreover, an additional 20.77m sq. ft of speculative development is due for completion in 2023 and 2024, 12% of which is already under offer.

## Commercial property currently for sale in the UK

- *South West England* has the highest number of commercial properties for sale
- *Scotland* currently has **1,068** commercial properties for sale with an average asking price of **£315,477**
- There are currently **1,624** commercial properties for sale in *London*, the average asking price is **£1,300,777**.

| Region                   | No. properties | Avg. asking price |
|--------------------------|----------------|-------------------|
| London                   | 1,624          | <b>£1,300,677</b> |
| South East England       | 1,380          | <b>£651,956</b>   |
| East Midlands            | 836            | <b>£1,005,941</b> |
| East of England          | 880            | <b>£528,830</b>   |
| North East England       | 806            | <b>£344,448</b>   |
| North West England       | 1,470          | <b>£488,286</b>   |
| South West England       | 1,694          | <b>£511,580</b>   |
| West Midlands            | 1,157          | <b>£522,363</b>   |
| Yorkshire and The Humber | 1,220          | <b>£309,505</b>   |
| Isle of Man              | 53             | <b>£440,741</b>   |
| Scotland                 | 1,068          | <b>£315,477</b>   |
| Wales                    | 834            | <b>£424,146</b>   |
| Northern Ireland         | 7              | <b>£102,404</b>   |

Source: Zoopla, data extracted 19 January 2023

## Scottish commercial property on the up

*Scottish commercial property had a strong year in a difficult economic environment, with annual investment volumes continuing their upward trajectory in 2022, according to Knight Frank.*

In total, £1.66bn worth of deals concluded last year, a slight rise on the £1.64bn recorded during 2021. The annual total is the biggest since 2019's £2.02bn.

As well as setting a post-pandemic record, 2022 also contained the single largest office transaction in Scotland – in April, Spanish investment firm Pontegadea paid more than £200m for 177 Bothwell Street in Glasgow.

Indeed, Glasgow saw the highest investment volumes of Scotland's three largest cities (£468.54m), narrowly ahead of Edinburgh (£463.57m). Aberdeen's £143.06m worth of deals was its highest figure since 2019.

Other trends saw overseas investors account for 52% of investment volumes and offices led the way (£494.23m), ahead of industrials (£308.75m) and retail (£303.20m).



**All details are correct at the time of writing (19 January 2023)**

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