

PROPERTY MARKET REVIEW

AUGUST 2020



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.

True impact of the pandemic yet to be felt

According to Derwent London (property investor, developer and landlord in the capital), the real impact of the pandemic on the office market is yet to be felt. With job losses and business failures likely to increase over the next few months, office vacancies will also rise and place pressure on rents, which look likely to fall as a result.

Focusing on office occupancy levels, Paul Williams, Derwent's Chief Executive, is not expecting workplaces to reach beyond 50% of capacity over the next few months. Despite this, some demand for new office space in the capital has been noted, from firms including Slaughter and May, and Netflix. Evidence suggests that occupiers' priorities have re-positioned. Mr Williams, commented: "They are saying they want more space available: less hot-desking, less packing [people in], less sedentary desk space; more collaborative space."

UK retail recovery unlikely for some time

The most recent 'UK Retail Monitor' from Knight Frank for Q2 2020, highlights the continued plight of the retail sector in the UK. Closure of all but essential retail, understandably caused sharp declines in values and volumes. Interestingly, high streets and shopping centres experienced footfall declines between -88% and -65%, but due to their accessibility by car and large store formats facilitating social distancing, retail parks experienced lesser footfall declines (April -63%, May -55% and June -34%). Consumer confidence fell sharply between Q1 and Q2 2020 (-34), with only a marginal recovery (-27) by the end of Q2.

Knight Frank feel that the effects of the pandemic will continue to 'unravel' during the second half of the year, with any 'meaningful recovery' in retail properties unlikely until 2021, or into 2022. Stephen Springham, Head of Retail Research at Knight Frank, concluded: "Q2 saw some of the worst retail statistics on record, illustrating the crippling effects of COVID-19

and subsequent lockdown. Relaxation of restrictions occurred just over a week before quarter-end in England and NI and has thus far brought little respite."

Industrial sector still displays resilience

Although rental expectations over the next twelve-month period for prime and secondary office space, and primary and secondary retail rents, are negative, the recently released UK Commercial Property Survey for Q2 2020, highlights that sentiment is much more resilient across the industrial sector. Despite rents in secondary locations falling by around -1% in the next 12 months, prime industrial rents continue to display a positive outlook, with respondents to the quarterly survey anticipating growth of just under 2% over the next year. This outperformance for the industrial sector is evident in respondents' expectations at both regional and national level.

From a commercial property investment perspective, survey respondents reported a fall in investor enquiries during the second quarter of the year (-46%), the weakest return for this indicator since the end of August 2008 and down from a figure of -14% in Q1 2020. At a sector breakdown level, demand is declining in every area of the market, but it is reported that conditions in the industrial sector are 'less downbeat' than those in both the retail and the office sectors.

With job losses and business failures likely to increase over the next few months, office vacancies will also rise and place pressure on rents, which look likely to fall as a result.

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

- Regions with the **highest** number of commercial properties for sale currently are the **South West** and **North West of England**
- Northern Ireland** currently has the **lowest** number of commercial properties for sale (33 properties)
- There are currently **1,237** commercial properties for sale in **London**, the average asking price is **£1,064,402**

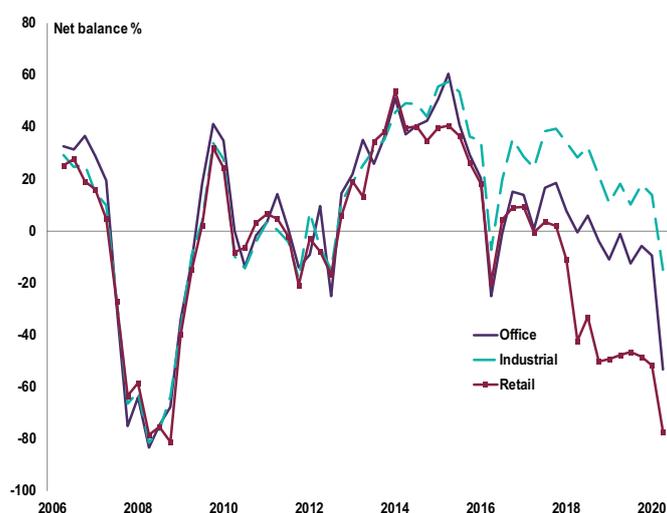


REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,237	£1,064,402
SOUTH EAST ENGLAND	1,358	£574,461
EAST MIDLANDS	992	£853,918
EAST OF ENGLAND	825	£475,793
NORTH EAST ENGLAND	981	£307,200
NORTH WEST ENGLAND	1,857	£401,299
SOUTH WEST ENGLAND	1,842	£632,368
WEST MIDLANDS	1,306	£461,505
YORKSHIRE AND THE HUMBER	1,393	£367,658
ISLE OF MAN	52	£479,025
SCOTLAND	1,362	£267,100
WALES	847	£380,700
NORTHERN IRELAND	33	£427,873

Source: Zoopla, data extracted 20 August 2020

COMMERCIAL PROPERTY OUTLOOK

INVESTMENT ENQUIRIES – BROKEN DOWN BY SECTOR

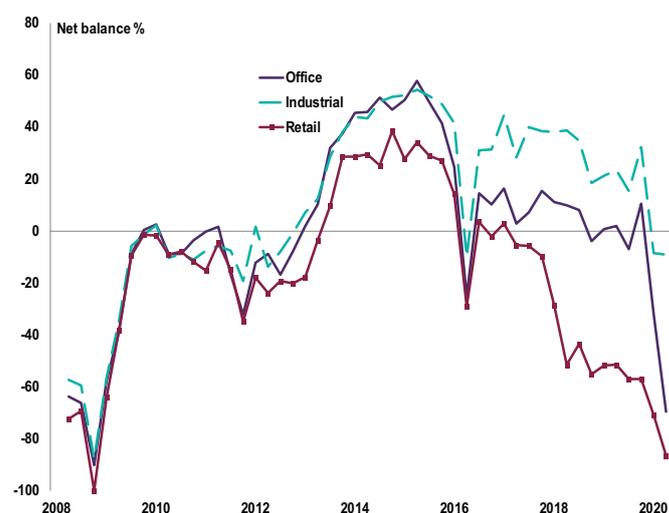


- A headline net balance of -46% reported a fall in enquiries during Q2
- Down from -14% in Q1 and the weakest return for this indicator since the end of 2008
- Conditions in the industrial sector are less downbeat than retail and office sectors

Source: RICS, UK Commercial Property Market Survey, Q2 2020

All details are correct at the time of writing (20 August 2020)

CAPITAL VALUE EXPECTATIONS – BROKEN DOWN BY SECTOR



- Twelve-month capital value expectations are firmly negative for retail units and offices
- Prime industrial capital values are still seen posting marginal gains in the year ahead, although the outlook is slightly negative for secondary

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