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Commercial Property Market Review October 2022

Rising yields and flight to quality

Most commercial property yields rose in September, according to the latest 'Market in Minutes: UK Commercial' report from Savills, leading to an average prime yield of 5.23%, compared to 4.95% the month before.

A total of seven sectors saw an upward trend in September 2022, including shopping centres and leisure parks. Despite this, investment volumes for the year to the end of Q3 remain about 3% below the same point in 2021.

Prime yields for offices rose too, though data for the office sector remain mixed as occupiers try to work out how much space they need in their next office acquisition. In the 'Big 6' office markets, for example, companies moving to new premises over 10,000 sq. ft in 2021 and H1 2022 required, on average, 8% less space than previously.

Although some occupiers are reducing their office provision in response to hybrid working, many are prepared to pay higher rents for higher-quality space. The number of transactions over £35 per sq. ft have risen by 210% since 2019.

Commenting on this trend, Stephen Lang, Director of Commercial Research at Savills said, *"With the continuing flight-to-quality in the markets, occupiers taking smaller spaces are willing to pay higher rents for a better office space."*

New lease of life for Battersea Power Station

Almost 40 years after it was decommissioned, Battersea Power Station has been transformed into a mixed-use development – costing £9bn and taking eight years of labour.

The renovation, backed by a group of Malaysian investors, has turned Battersea Power Station into offices, flats, shops and more.

The famous Art Deco building, experts say, still retains much of its original character. The two turbine halls have become retail areas and the control rooms are now bars. 254 luxury apartments, restaurants and cafés sit side-by-side with a theatre and event spaces.

Most prominent, perhaps, is the boiler room, which has become an office space. Apple has taken 500,000 sq. ft of this across six floors, with room for 3,000 employees.

Overseas investors drive investment in Scotland

The declining value of the pound could see overseas investors' share of investment in Scottish commercial property reach record levels, according to Knight Frank.

Q3 data showed that overseas investors are responsible for more than half of current volumes, propelling a year-on-year rise of 37% in the year to September.

Of the £1.46bn invested so far in 2022, offices led the way, representing more than a third (£486m) of total investment volumes. Industrial property, meanwhile, almost doubled to £300m, resurgent after its pandemic slump.

Alasdair Steele, Head of Scotland Commercial at Knight Frank Scotland, commented, *"There has been a great deal of uncertainty this year, starting with the complications of the ongoing pandemic, the conflict in Ukraine, and rising inflation and interest rates; but Scotland's commercial property market has continued to fare well. This is particularly true for assets that are in high demand, namely prime offices and industrials."*

Commercial property currently for sale in the UK

- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,087** commercial properties for sale with an average asking price of **£354,288**
- There are currently **1,649** commercial properties for sale in **London**, the average asking price is **£1,408,367**.

Region	No. properties	Avg. asking price
London	1,649	£1,408,367
South East England	1,437	£655,681
East Midlands	853	£964,439
East of England	896	£565,263
North East England	831	£320,533
North West England	1,441	£475,139
South West England	1,716	£547,998
West Midlands	1,193	£505,783
Yorkshire and The Humber	1,245	£306,880
Isle of Man	52	£440,852
Scotland	1,087	£354,288
Wales	879	£428,800
Northern Ireland	18	£745,000

Source: Zoopla, data extracted 20 October 2022

Uncertain outlook for UK commercial property

Goldman Sachs has warned that billions of pounds could be wiped off the value of UK commercial property because of the recent sharp rise in borrowing costs.

The five-year swap rate used by commercial property borrowers has risen from about 1% a year ago to over 5%. As a result of these higher borrowing rates, Goldman Sachs estimates that gross financing costs for the listed companies it covers will rise by about 75% over the next five years.

There is the added concern that retail landlords will come under increased pressure over the next 12 months as consumer-focused businesses face a slowdown in demand caused by the cost-of-living crisis.

Overall, the bank warns that anticipated prices across the UK commercial market could fall by between 15% and 20% between June 2022 and the end of 2024.

All details are correct at the time of writing (20 October 2022)

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