

Investment demand in UK commercial property higher than before pandemic

4 years ago



- Outlook for capital values upbeat although industrials remain the strongest performing sector
- 87% of survey participants report seeing re-purposing of office space, but two-thirds still view the office as essential for a company to operate successfully
- However, COVID developments stifle the recovery in tenant demand across the office section during Q4

Property experts have seen positive movements in investment trends across commercial property during Q4, while owners continue to diversify the way we use office space. This according to the latest RICS Global Commercial Property Monitor.

Across all sectors, investment enquiries rose for the fourth successive quarter, leading to capital value expectations rising for the year ahead. The strength of the industrial sector continues to stand out, with a net balance of +84% of respondents expecting prime industrial values to increase over the next twelve months. The outlook is also positive for prime office values, as a net balance of +24% of respondents foresee an increase during 2022 (the strongest reading since Q4 2019).

Looking at the alternative sectors, over 50% of respondents project an uplift in capital value expectations for data centres, multifamily residential and aged care facilities, respectively.

As almost two-fifths of respondents (+39%) believe the market to be in the early phase of an upturn, despite some impact from the latest COVID wave, respondents are more optimistic about the future of the UK commercial property, with owners in the office sector looking at how to attract employees and occupiers back.

As COVID restrictions lifted across the UK last week, 66% of respondents still believe an office is essential for a company to successfully operate. However, 76% of contributors report that they are seeing an increase in demand for more flexible and local workspaces and over two thirds (69%) have reported an increase in space allocation per desk following the pandemic; all highlighting how occupiers are making the office place safe and attractive for employees once more.

But traditional set ups are changing as 87% of respondents are seeing a re-purposing of office space, with 15% highlighting that this is happening in significant volumes.

Interestingly as UK office space looks to be repurposed, investment enquiries from the UK and overseas slightly increased this quarter.

Industrials

Growth across the industrial sector continues to intensify with availability of units failing to keep up with demand. This quarter, 61% of respondents saw an increase in the number of enquiries for industrial units whilst -43% reported a decline in availability. This imbalance means that almost two-thirds of respondents anticipate industrial rents rising in the coming three months. Industrials are also the only sector anticipated to see any significant rental and capital value growth over the coming 12months too.

Retail

The retail sector continues to experience a drop in occupier demand. Whilst investment enquiries also slipped this quarter with -16% of respondents reporting a fall in domestic enquiries and -17% reporting a fall in foreign investment enquiries, this continued negative trend is less pronounced than in 2020. 32% of respondents report that capital value expectations for the year ahead didn't change in Q4 (in net balance terms). Despite this negative reading the momentum has significantly improved from the onset of the pandemic when 86% of respondents expected them to fall.

Tarrant Parsons, RICS Economist, commented: "Strength across the UK industrial/logistics market shows no sign of abating, with capital value expectations for the year ahead posting a fresh all-time high across the sector during Q4. Generally speaking, sentiment appears to have largely weathered the uncertainty brought on by the rapid spread of the Omicron variant in recent weeks, although the green shoots of recovery that appeared to be emerging in office tenant demand seem to have been put on hold for now. Longer term though, a strong majority of respondents still consider office space in some form to be essential for businesses to operate successfully. That said, it appears more flexible or local spaces are very much in favour which could well prove to be a lasting legacy of the pandemic."

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