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CBRE: '2021 was a year of impressive recovery for some sectors but Retail still lags behind'

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CBRE's latest Prime Rent and Yield Monitor showed a quarter of rental growth across the Industrial and Office sectors with average All Property prime rents rising 2.0% in Q4 2021, the strongest growth since Q4 2000. At the All-Property level, yields moved in 16bps over Q4. This was driven by falling yields in the Industrial, Office and Retail Warehouse sectors.

Industrial prime rents increased 3.7% in Q4, the largest quarterly increase since Q1 1990. Prime rental growth was 8.6% over the year. This follows continued strong demand for Logistics assets which has driven record levels of investment into the sector over 2021. London was the region to report the greatest rental growth at 7.0%. This compares to 2.3% in the Rest of UK (excl. SE and Eastern), indicating that tenant demand remains strong across the country, despite lower growth than in London. Scotland was the region to report the weakest rental growth at only 0.6%. Industrial prime yields moved in 9bps in Q4 2021 taking the All Industrial yield to 4.1%. This represents a slight deceleration in the rate of decline seen during the other quarters of 2021. In London, where yields were already very sharp at 3.5%, there was no change in yields over Q4. This compares to a -17bps fall across the Rest of the UK.

Over the quarter, Office prime rents rose 0.9%, the smallest quarterly increase of the year. Over the year, values rebounded from declines sustained during 2020 with annual growth totaling 5.4%, taking values to above pre-pandemic levels. In Central London, values rose 1.2% over Q4. This was driven by rental growth in the West End and Southbank of 2.3% and 0.5% respectively. No UK region reported falling Office rental values, demonstrating that the continued bounce back in rental values is nationwide. On the investor side, the Office sector reported a -3bps fall in yields over Q4 2021. City and Midtown reported marginal yield contraction at -8bps and -2bps respectively, while South West Offices reported the greatest fall at -16bps. Over the year average prime yields in Central London moved in -14bps contrasting with the Rest of UK (excl. SE and Eastern) where yields softened 9bps.

High Street Shop prime rental values fell by -0.1% over Q4 2021. This was driven by a -1.3% decrease in values in Yorkshire & Humberside, whilst all other regions reported no change in rental values over the quarter. After marginal growth in values over Q3 2021, Shopping Centres reported a -0.7% fall in values over Q4. During 2021, Shopping Centre rental values in London, SE and the East increased 0.6%, compared to the Rest of the UK where values fell -2.4% over the year. Retail Warehouses had another good quarter with values increasing 1.1%, almost enough to recoup the declines reported in the first two quarters of the year. Over 2021, Retail Warehouse prime rents declined -0.1%. On the investor side, Retail Warehouse yields moved in 26bps in Q4 2021 to 7.6%, equaling the pre-pandemic yield for the sector in Q4 2019. Over the quarter, average Shop prime yields rose by 2bps, although within this there was some regional variation. For example, yields in Suburban London moved in -24bps while yields in the East Midlands and Wales moved out 20bps and 10bs respectively. Shopping Centre prime yields moved out marginally by 1bp. "

Toby Radcliffe, Senior Research Analyst, CBRE, said: "The story of 2021 has been one of recovery, with values for some sectors rebounding to pre-pandemic levels. The year ended strongly with Q4 2021 reporting a continuation of All-Property rental growth and yield contraction, both at an increased rate compared to Q3 2021. Rental growth was driven predominantly by Industrials, a sector which experienced an extremely strong year. The fundamentals remain strong and growth in the sector is expected to continue into next year.

"Meanwhile, Prime Office rental values have surpassed pre-pandemic levels, and with employees now returning to offices as Covid restrictions are eased, we may see growth accelerate throughout this year. Last year was less upbeat for Retail, but a lack of prime transactions has perhaps concealed the evidence needed to show any potential rebound in values. However, Retail Warehouses provide a glimmer of hope, showing that once pricing reaches an attractive level there is robust occupier and investor demand for certain Retail assets."

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