

Colliers predicts total returns growth across Scottish commercial property of 9.6% in 2022

3 years ago



No sign of let up for industrial demand as retail warehouses, prime offices and life sciences also high on wish lists.

Colliers expects UK all-property total returns growth to moderate to 9.6 per cent in 2022 and 6.4 per cent in 2023 as rental growth slows and yields stabilise, following a six year high of 16.5 per cent in 2021. The industrial sector will continue to remain popular with investors this year as will retail warehouses, prime offices and life science/pharma assets predicts the firm as all market segments are expected to record positive total returns growth in 2022, led by industrial (13.2 per cent).

[Douglas McPhail, head of Scotland at Colliers](#), commented: “We continue to see considerable investor demand for offices in Scotland, especially in Edinburgh where we have witnessed strong prices being paid. Looking across the commercial property spectrum, pricing remains firm with yield compression expected across most market sectors this year. We are also expecting investment volumes to break through the £2 billion mark in 2022 as appetite remains strong and there are still opportunities for strong returns.”

Retail investment sales in Scotland reached a three-year high of £530 million in 2021, helped by a strong Q4 during which £210 million was transacted. This year, although tourism volumes should slowly return to “more normal” levels, and thereby support high street shopping, falling real household incomes and declining consumer confidence will continue to put pressure on retailers. Colliers predicts further rental falls across most UK retail segments over the next two years, but an eventual return to growth in 2024.

Despite significant rental declines, the firm believes that this pricing correction of the past few years has come to an end. All retail yields in Scotland hardened in 2021 and at the end of the year were at 6.98 per cent, down by 84bps since the end of 2020. Colliers' forecasts suggest that the UK all retail yield will move in by 19bps this year. Yield compression is driving total returns growth of 8.7 per cent for all retail this year. Retail warehouses will perform particularly well.

Annual investment sales volumes in the Scottish office sector reached £640 million in 2021, up on the £380 million transacted in 2020, but still around 5 per cent below the 10 year average of £680 million. Nonetheless, investor demand for prime assets remains strong with further mild yield compression expected this year. Occupationally, both Glasgow and Edinburgh have recorded improved take-up levels and Aberdeen is one of the front runners for North Sea oil firm Repsol Sinopec's search for up to 75,000 sq ft of office space. If they go ahead, this would be the second significant leasing deal of an oil and gas company in the city, after Shell took 71,000 sq ft at Silver Fin Building earlier in 2021.

With gilts expected to move towards the 2 per cent mark by the end of the year, the spread to all property yields will continue to narrow over the coming years, but importantly remain well above 200 basis points mark. A more detailed analysis suggests that office assets in Edinburgh and Glasgow will continue to offer investors good value. Historically, average office yields in these two cities are around 100bps higher than the UK average.

Colliers shows that around £340 million was transacted in the industrial sector in 2021, up from the £220 million seen in 2020 and almost 50 per cent above the 10-year average of £230 million. Yields firmed by around 100 bps in 2021 as demand remained strong and supply reduced.

[Elliot Cassels in the National Capital Markets team at Colliers Scotland](#), added: "The rise in e-commerce and the effects of COVID-19 has accelerated the structural change in demand for warehousing. The increased tenant demand and strong rental growth has resulted in industrial and distribution remaining the best performing sector in the Scottish property market and the rest of the UK attracting strong investor demand from both domestic and overseas capital. However, the Scottish market has limited prime stock and subsequently the market has been starved of product."

Given the continuous demand for space across the UK, supply is likely to remain constrained for at least the next 12-15 months. Colliers forecast all industrial yields will fall to 4.04 per cent by the end of 2022, a further 18bps lower than at the end of 2021, there will be stabilisation in 2022 and very mild outward shifts thereafter. The firm expects an increase in pre-let activity and moderate rental growth due to the record-low availability.

Colliers forecasts annual all industrial rental growth of 6.6 per cent this year, with London and the Rest of South East expected to outperform at 8.5 per cent and 6.5 per cent, respectively. Given the ongoing strength of rental growth and firming of yields, all industrial total returns will show growth of 13.2 per cent this year. While this is down from the 36.4 per cent recorded in 2021, the sector remains the top performer.

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