

Interest rate rises and cost of living weigh on UK commercial market

3 years ago



The cost of living crisis and BoE interest rate hikes have caused a cautious tone across the commercial property market, with 43% of respondents now reporting that the market is entering the early stages of a downturn.

This is mirrored across the whole of the UK, as reported by respondents to the Q2 2022 RICS UK Commercial Property Survey.

The series of interest rate hikes sanctioned by the Bank of England in recent months, have also seen a net balance of -42% of respondents citing a deterioration in credit conditions in Q2, dampening momentum behind investor activity. That said, for the time being at least, the latest reading for investment enquiries remains positive (net balance +12% compared to +32% last quarter), even if momentum is fading. Beneath the headline figure, the solid pick-up in investor demand for office space also lost momentum, with the net balance slipping to -1% from +23%. Overseas investment demand has also lost impetus.

Across all sectors, although occupier demand is still increasing, it is not at the same level as in Q1. In the sector breakdown there is a decline in occupier interest for retail space with very modest growth for offices. The industrial sector is propping up the headline figure, as tenant demand remains comfortable for warehouses – even if the latest net balance of +49% is the least elevated figure since Q4 2020.

Meanwhile, leasable office and retail space continues to rise returning net balances of +22% and +27% respectively. This is having a knock on effect of landlords increasing the value of incentives packages to tempt occupiers back into the market. Rental growth expectations are therefore now only in modestly positive territory. This is still positive, but is the lowest net balance since Q1 2021.

Tarrant Parsons, RICS Economist, said: “As the UK economy grapples against significant impediments to growth, the gloomier macro outlook appears to be dampening sentiment across the commercial real estate market. In particular, with the Bank of England sanctioning several interest rate hikes over recent months in an attempt to ward off inflation, respondents report that credit conditions are now tightening within the sector. This, in turn, appears to be weighing on investment activity, which lost some momentum at the headline level during Q2. Given interest rates are set to rise further from here, it appears the market may be at a turning point, with an increasing share of survey participants throughout the UK now feeling conditions are consistent with the early stages of a downturn.”

Phil Clark MRICS, Chair of the RICS Commercial Property Forum added: “This week, RICS have released a ten point levelling up plan aimed at supporting communities through delivery of local economic growth, as part of the UK Government’s levelling up strategy. These new investment figures underline the challenges in attracting investment in an uncertain economic environment. It is vital that the UK Government and private sector work together to attract investment and meet the challenge of sustainable placemaking in the built environment, supporting economic regeneration and providing jobs, and easing economic pressure on people across the UK. RICS is committed to working to support delivering this with the UK Government.”