

Changing tide for commercial property investment as macro factors impact yield movements

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Inward yield movements for most commercial real estate sectors are expected to come to an end over the coming months as investor caution sets in, according to Colliers' latest [Real Estate Investment Forecasts](#).

While Colliers forecasts that all property yields will end 2022 at roughly the same level as they ended 2021, this is a consequence of strong compression during H1 followed by outward shifts in H2. Industrial and retail warehouses will see the largest outward shifts in yields, while high street shops and shopping centres will see some modest compression.

[Oliver Kolodseike, head of Economic Research at Colliers](#), comments: "At the end of Q2, the all-property yield stands at 4.90 per cent but we forecast a softening to 5.16 per cent by the end of this year. Given these yield shifts and a weaker rental outlook, we revised down our 2022 total returns forecast from 12 per cent in our previous report to now 5.9 per cent. I expect total returns to moderate further next year before picking up again in 2024."

Colliers predicts retail warehouses to be the best performing asset type in 2022, with returns growth of 10.4 per cent. Outside of this subsector, retail fortunes are very mixed notes Colliers. Due to the various strengths and weaknesses of localised economies, assets of similar quality are performing very differently even within regions. This is not only because of the rise of ecommerce but also changes in working and commuting patterns.

The office sector will see total returns slow from 5.3 per cent in 2021 to 2.4 per cent this year, considerably weaker than the 5.3 per cent Colliers forecast in May. This has been driven by the outward movement of yields and subdued rental growth. For best-in-class office space, rental levels are continuing to see uplift, but average rent for sub-prime property are flat at best.

Industrial & logistics is still suffering from a historic low level of supply which is preventing the market from functioning properly. This is fuelling strong rental growth across the board and as such Colliers forecasts all industrial rental growth of 9.9 per cent in 2022 before slowing to 4.9 per cent in 2023, then settling at 3.7 per cent. The firm predicts all industrial yields to end 2022 at 4.40 per cent. Given the outward shift in yields from their current record lows, all industrial total returns growth will slow from 36.4 per cent in 2021 to 7.7 per cent this year and to 7 per cent in 2023 before picking up again.

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