propertymark

Commercial Outlook

Q3 2022

HIGHLIGHTS:

- Largest increase in capital value expected in land/yards and industrial sectors over the next three months.
- Largest increase in investment yields expected in land/yards and take-away sectors.
- Pubs/restaurants expected to see greatest mismatch in supply and demand.

SUMMARY

This is the first iteration of the Propertymark Commercial Outlook. The report is based on a survey of Propertymark Commercial agents combined with an analysis of key economic forecasts for the UK to equip interested audiences with the most up-to-date information on the commercial property market for the coming quarter.

In August, Propertymark Commercial agents reported the best outlook for the coming quarter was in the land and yards sector. Capital value, rental levels and investor yields are all expected to rise by the majority of respondents.

Several factors have contributed to industrial buildings and land/yards bucking the trend on commercial property. Firstly—lack of supply. The growth of online retailing has also meant growth in the demand for storage and distribution units of all sizes to meet the needs of the larger online brands and the smaller distributors retailing through portals such as eBay and Amazon.

This demand has had in turn a knock-on effect so that companies traditionally needing yard space have opted for pure yard spaces as opposed to industrial buildings with yards.

The worst outlook for Q3 2022 is for pubs and restaurants. With a large mismatch in supply and demand, capital values are expected to fall. Hotels are in a similar circumstance with rental levels expected to decrease resulting in negative expectations for rental yield change over this quarter. This outlook is a reflection of the influence of the cost-of-living crisis. With the public expected to cut back on unnecessary expenditures combined with rising fuel costs, the hospitality industry is likely to particularly struggle.

At the same time, take-aways may be slightly sheltered from the storm as individuals switch from eating out to eating at home. Capital values in the take-away sector are expected to hold, while agents anticipate a rise in investor yields.

Anthony Meadowcroft,
President
NAEA Commercial

“It is extremely promising that industrial units are in big demand, reflecting on ongoing growth and influence that e-commerce has in changing retail times. Land has also featured as a key factor, as this gives great scope to buyer flexibility for development, subject to planning permissions of course.

The overall hospitality sector is predicted to have a level of turbulence in regards to demand and pricing, influenced by the current cost of living discussions, uncertain support for business owners and the subsequent potential effect on customer trade.

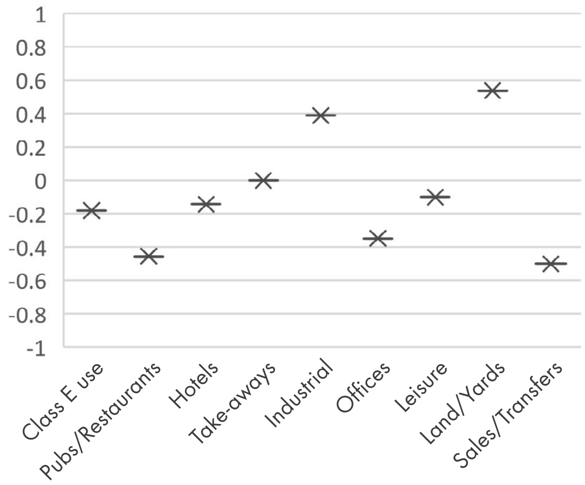
The new prime minister will have a key task on their hands and I implore them to tackle Bank of England base rates and the leisure sector which ultimately shape the commercial property and business sales market as an urgent priority.

MARKET EXPECTATIONS

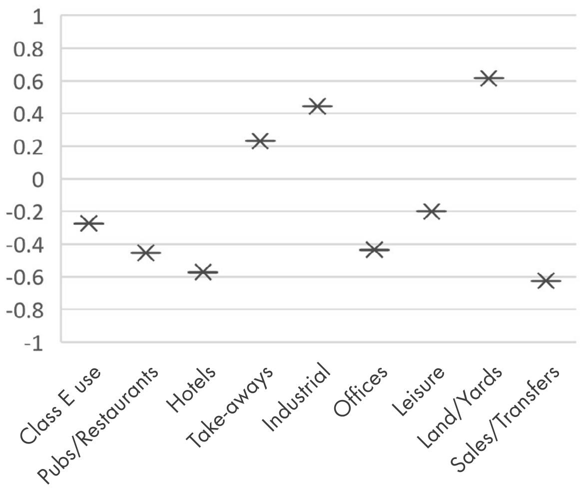
We asked our qualified agents whether they expect capital values, rental levels, investment yields, supply, and demand to increase, decrease or stay the same over the next three months for all sectors in which they operate.

Their responses are converted to a numeric scale bounded by 1 and -1 and reported here. Positive values indicate that the majority of respondents expected a rise in that factor over the next three months. Negative values indicate that the majority of respondents expected a fall. All graphs refer to the UK.

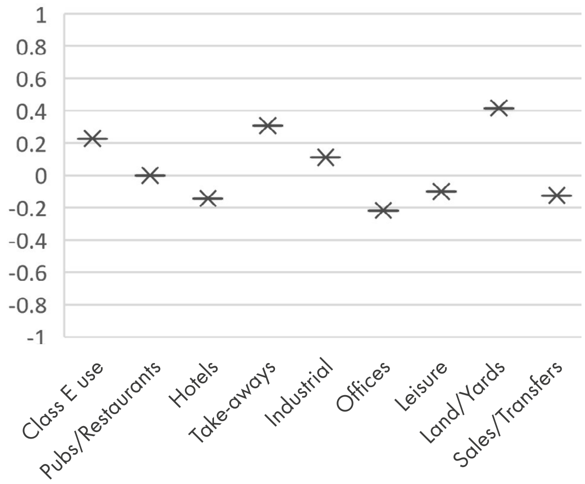
CAPITAL VALUE



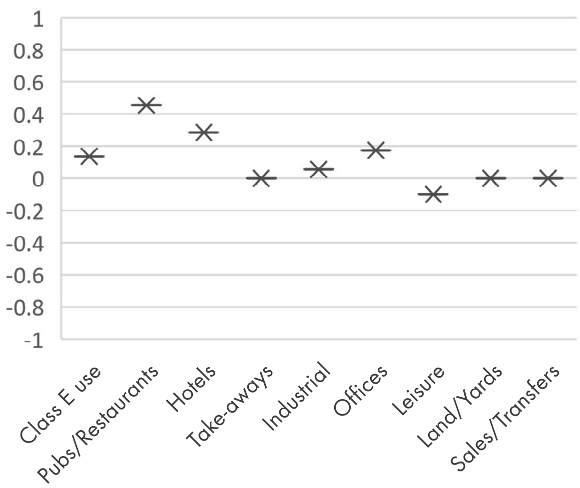
RENTAL LEVELS



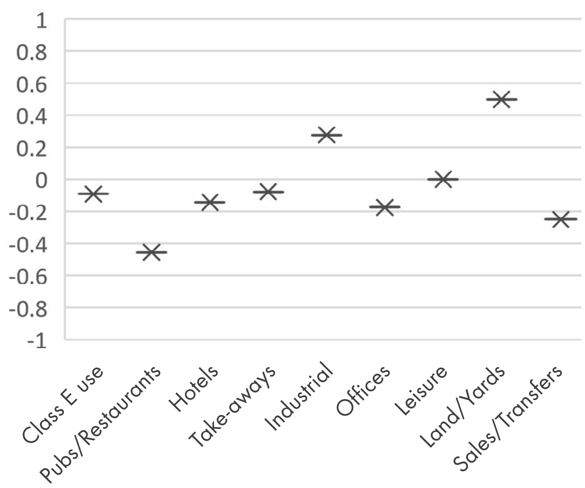
INVESTMENT YIELDS



SUPPLY



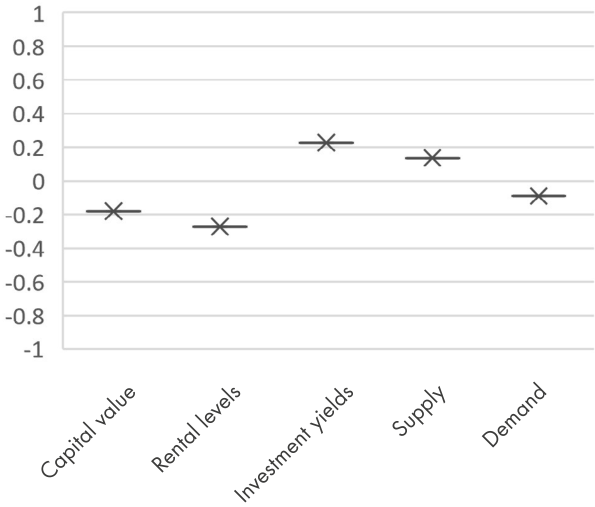
DEMAND



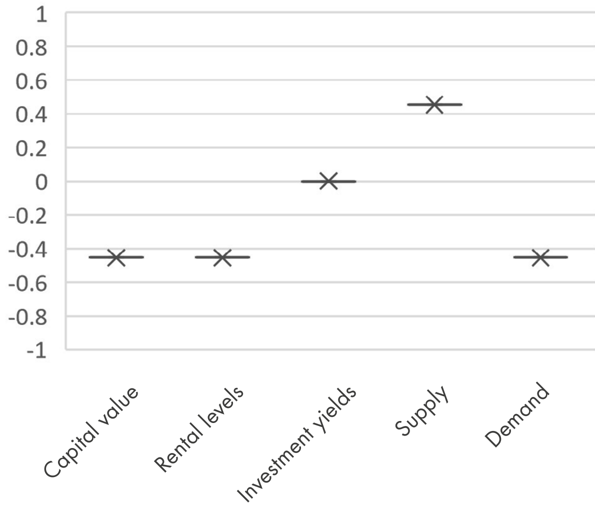
MARKET EXPECTATIONS BY SECTOR

The below graphs display the same expectations by sector for readers interested in specific divisions.

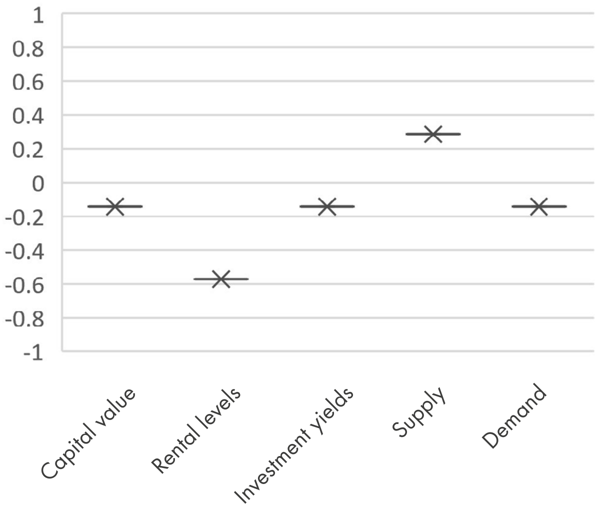
CLASS E USE



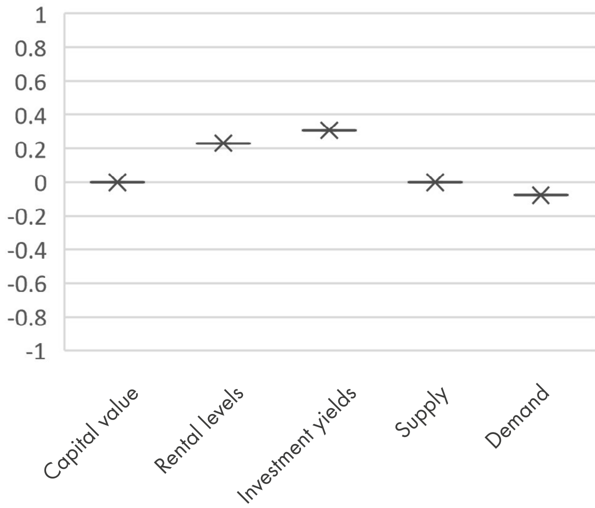
PUBS AND RESTAURANTS



HOTELS

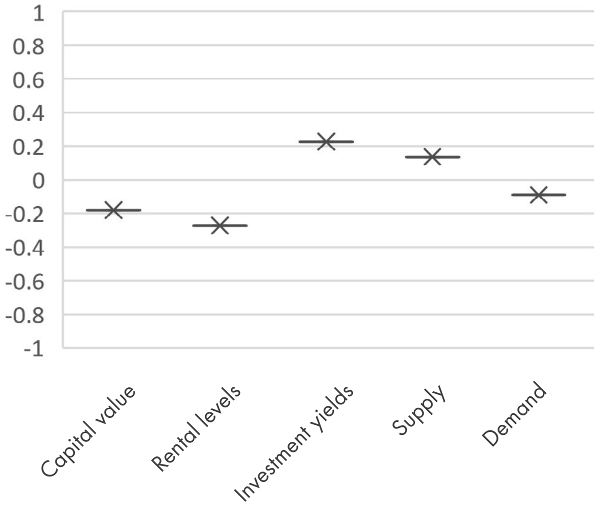


TAKE-AWAYS

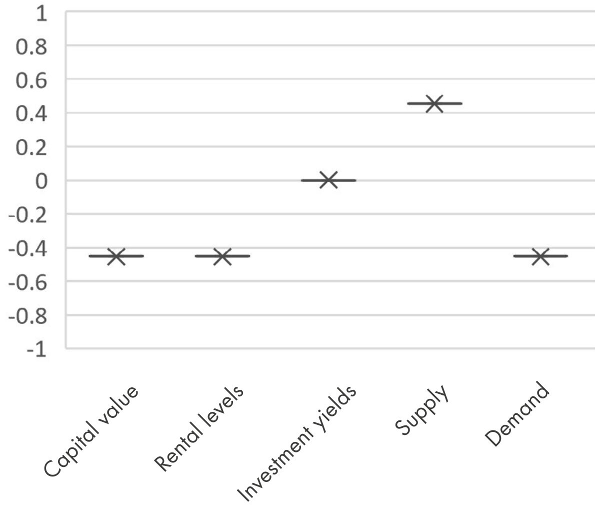


Continued...

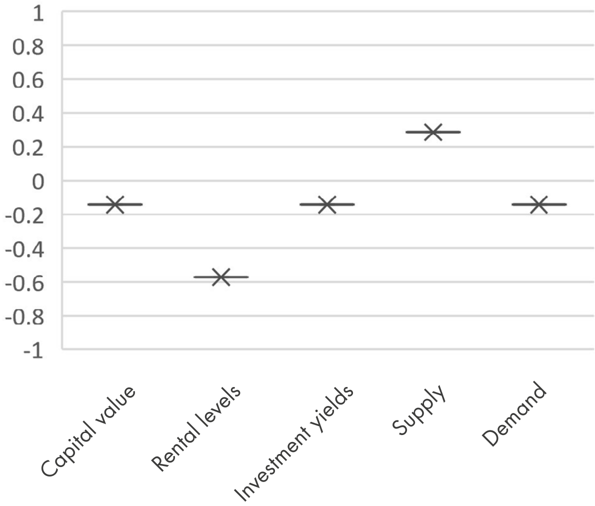
INDUSTRIAL



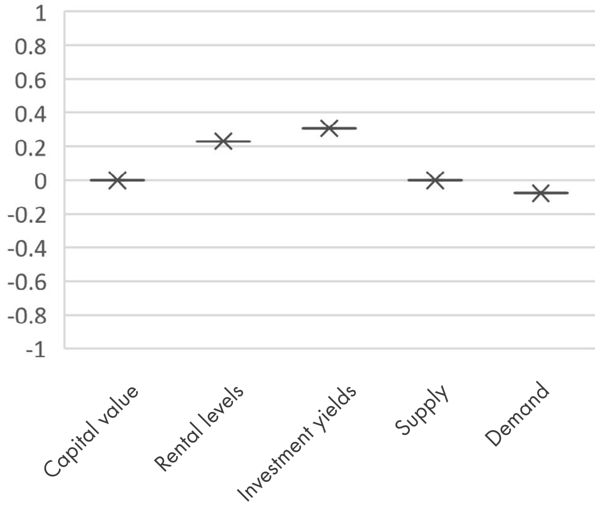
OFFICES



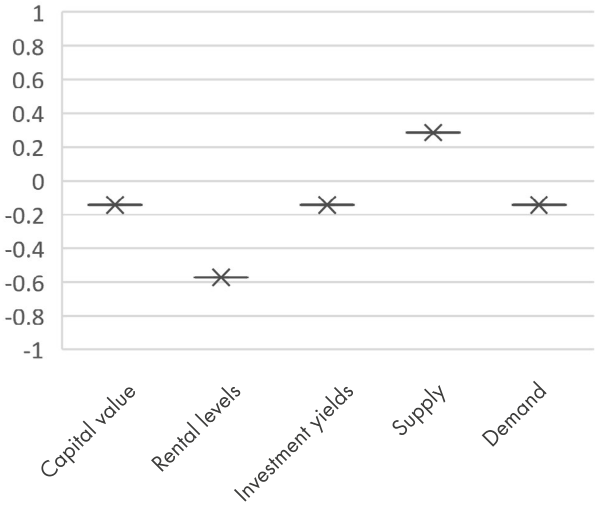
LEISURE



LAND/YARDS



BUSINESS SALES/TRANSFERS



THE UK ECONOMIC OUTLOOK

The following section is based on data provided by external sources. Latest expectations are that high inflation will persist over the next year before falling back to normal levels. GDP growth is expected to enter negative territory and not re-emerge until 2024.

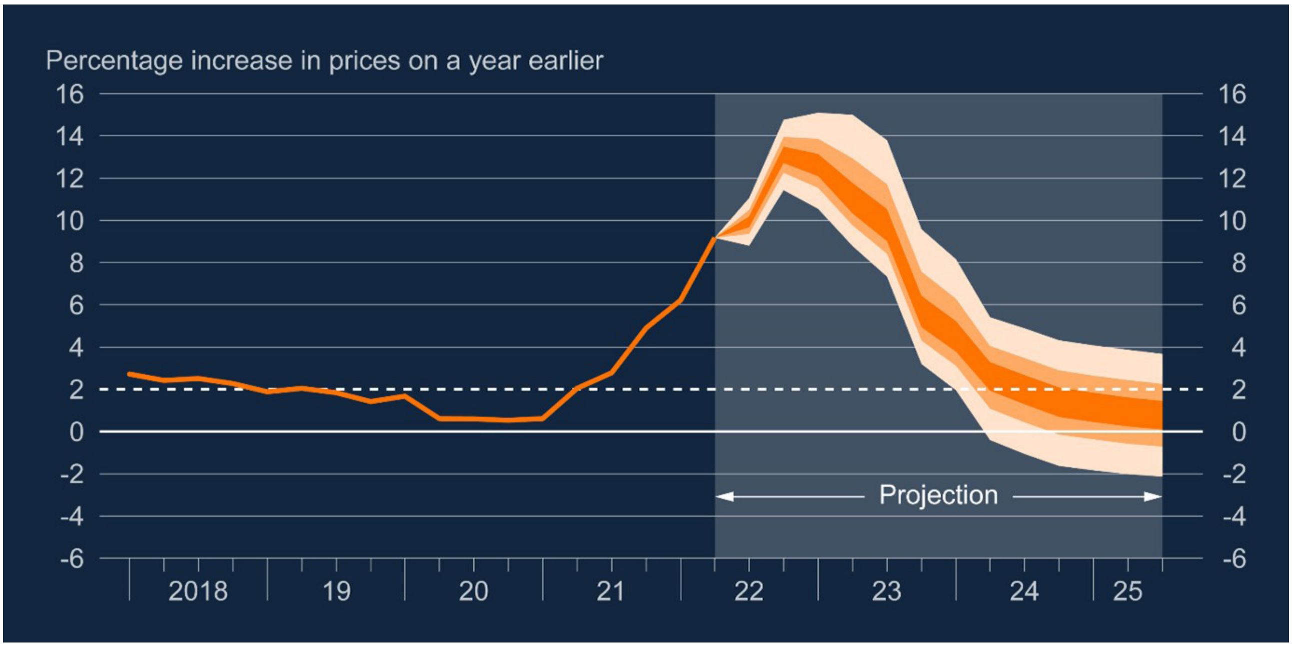
Bank of England interest rates are expected to rise further, peaking around 3 per cent in 2024. On the other hand, material prices are not expected to rise much further over the next six months, and construction rates of industrial and commercial property is expected to grow for the next few years.

INFLATION PROJECTION (CPI)

The Bank of England expects inflation to peak around the beginning of 2023 before falling off as sharply as it rose. There is little indication that prices will fall back, suggesting higher prices are here to stay. A period of higher inflation means less expendable money in people's pockets, resulting in a tougher time for the leisure and hospitality sectors.

After a period of higher inflation, it often takes far longer before price competition in the marketplace plus the ready supply of goods from the UK and abroad start to erode this rise in prices.

FIGURE 1: INFLATION PROJECTION TO Q2 2025

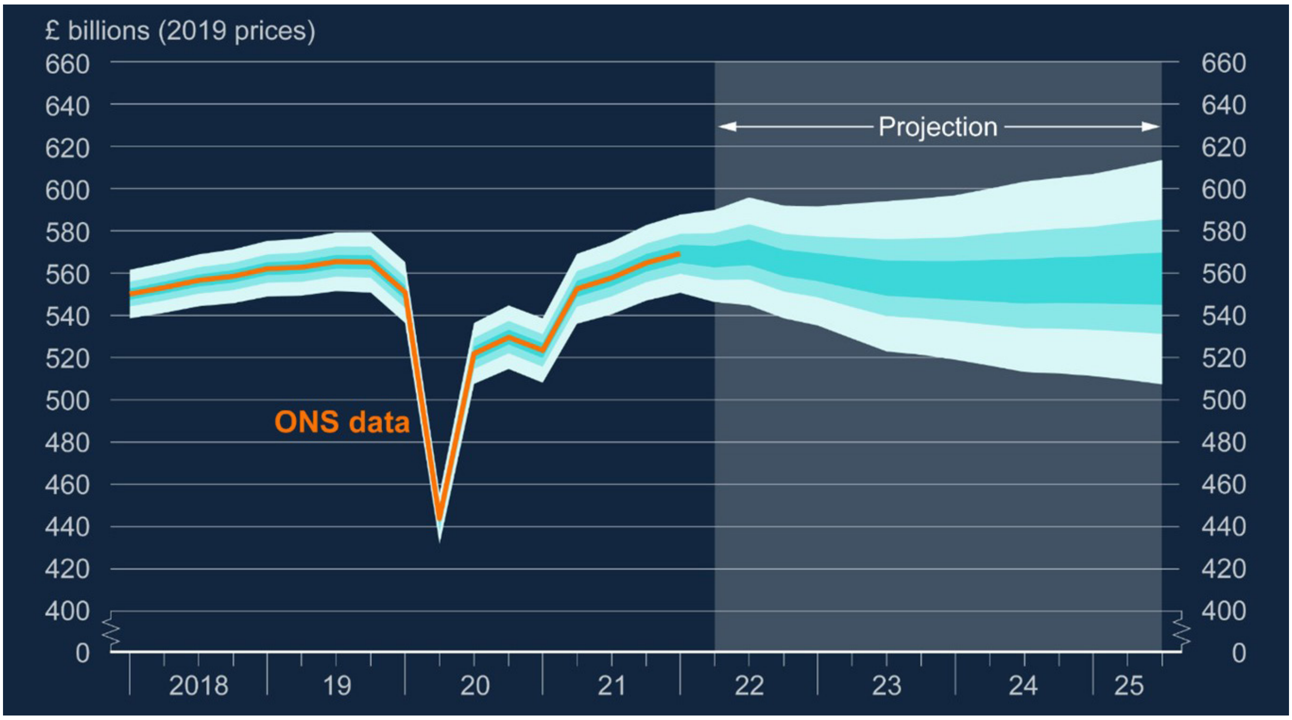


Source: Bank of England, *Monetary Policy Report—August 2022* (released 4 August 2022)

GDP AND GDP GROWTH PROJECTION

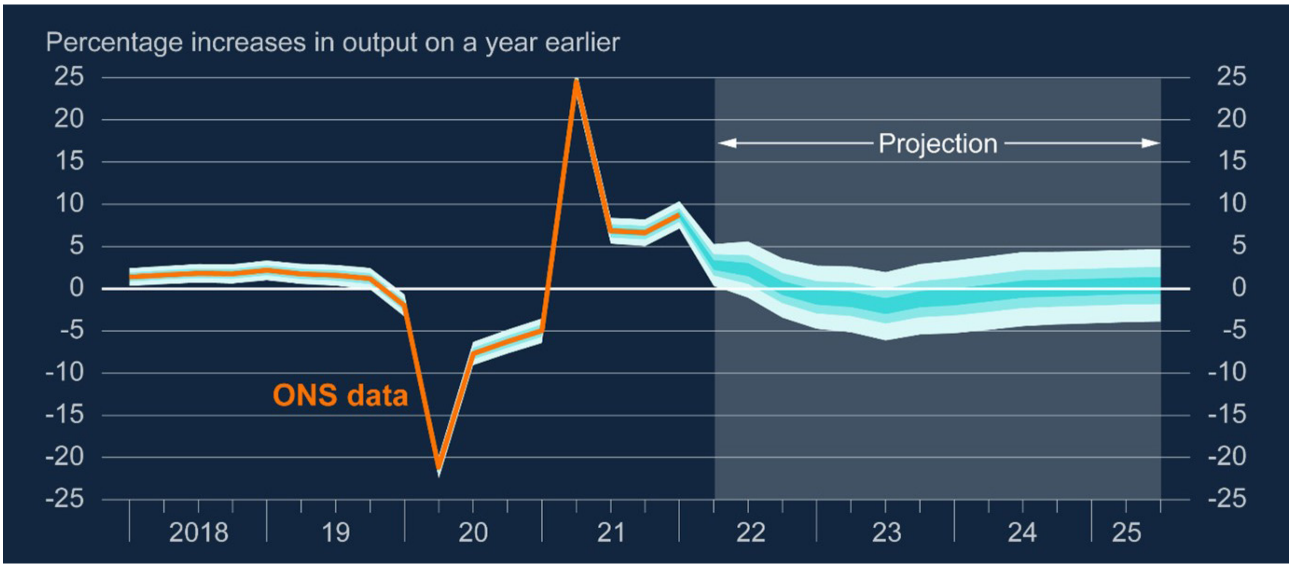
Current projections of GDP by the Bank of England show a high likelihood of recession starting in the second half of 2022, continuing for the entirety of 2023 and the first half of 2024. Quite often press and the reporting of negative predictions of recession and a bad economic outlook can have a degree of self-fulfilling prophecy, when consumers become ever more cautious, further adding to downward spirals of economic performance.

FIGURE 2: GDP PROJECTION TO Q2 2025



Source: Bank of England, *Monetary Policy Report—August 2022* (released 4 August 2022)

FIGURE 3: GDP GROWTH PROJECTION TO Q2 2025

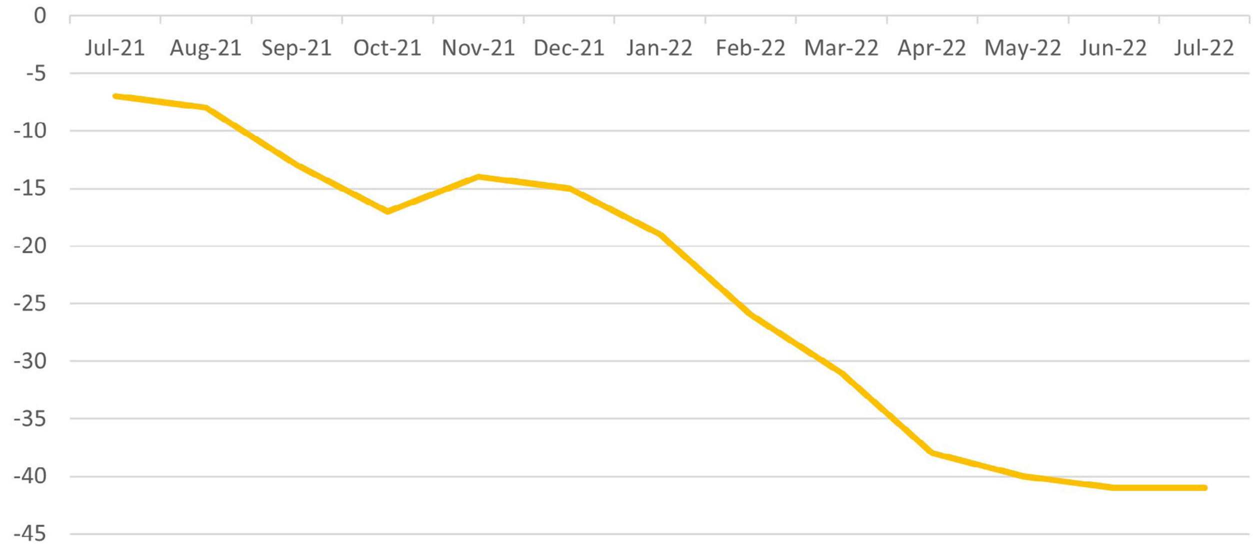


Source: Bank of England, *Monetary Policy Report—August 2022* (released 4 August 2022)

CONSUMER CONFIDENCE

The GfK Consumer Confidence Barometer has taken a dive over the last year and is currently at -41, the lowest level since records began in 1974. GfK derive their monthly consumer confidence figures from questions about the present and future. Thus, it can also be seen as confidence in the UK economy over the next year by consumers.

FIGURE 4: CONSUMER CONFIDENCE

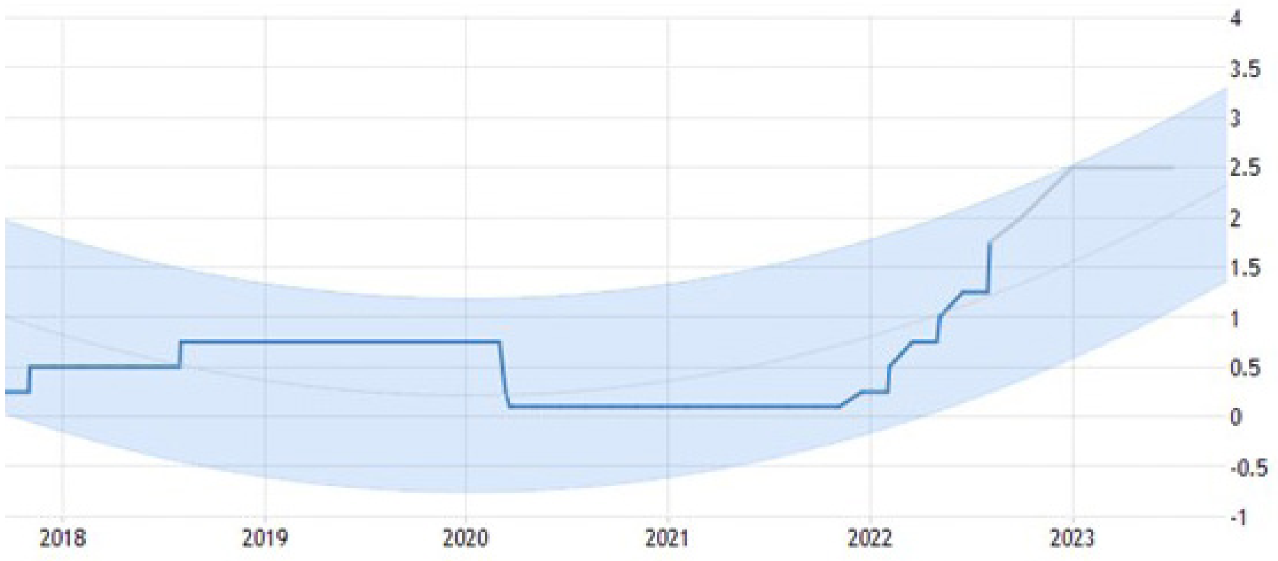


Source: *GfK Consumer Confidence Barometer* (released 22 July 2022)

INTEREST RATES

Having analysed market conditions, Trading Economics forecast UK interest rates to trend around 2.75 per cent in 2023 and 3.00 per cent in 2024. Sustained periods of higher levels of interest rates can mean pressures building for those heavily geared with lending on their commercial property assets, especially if coupled with sluggish economic downturn in their sector of business.

FIGURE 5: INTEREST RATE EXPECTATIONS

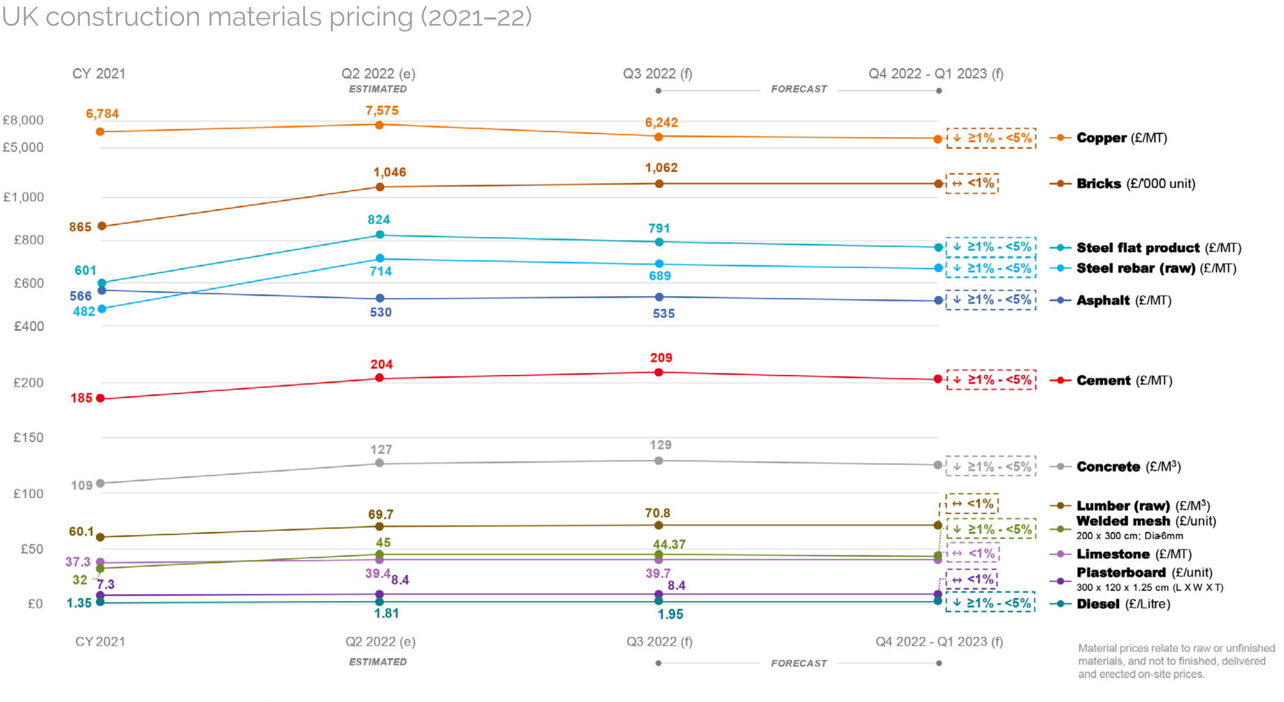


Source: Trading Economics | Bank of England (retrieved 10 August 2022)

Data provided by the global consultancy firm, Linesight, shows construction material prices levelling off in the second half of 2022, with some slightly falling back.

A more static price level in construction costs would lead to developers being more confident when calculating the cost of build from residual valuations on developments, leading to an increase in the number of developments.

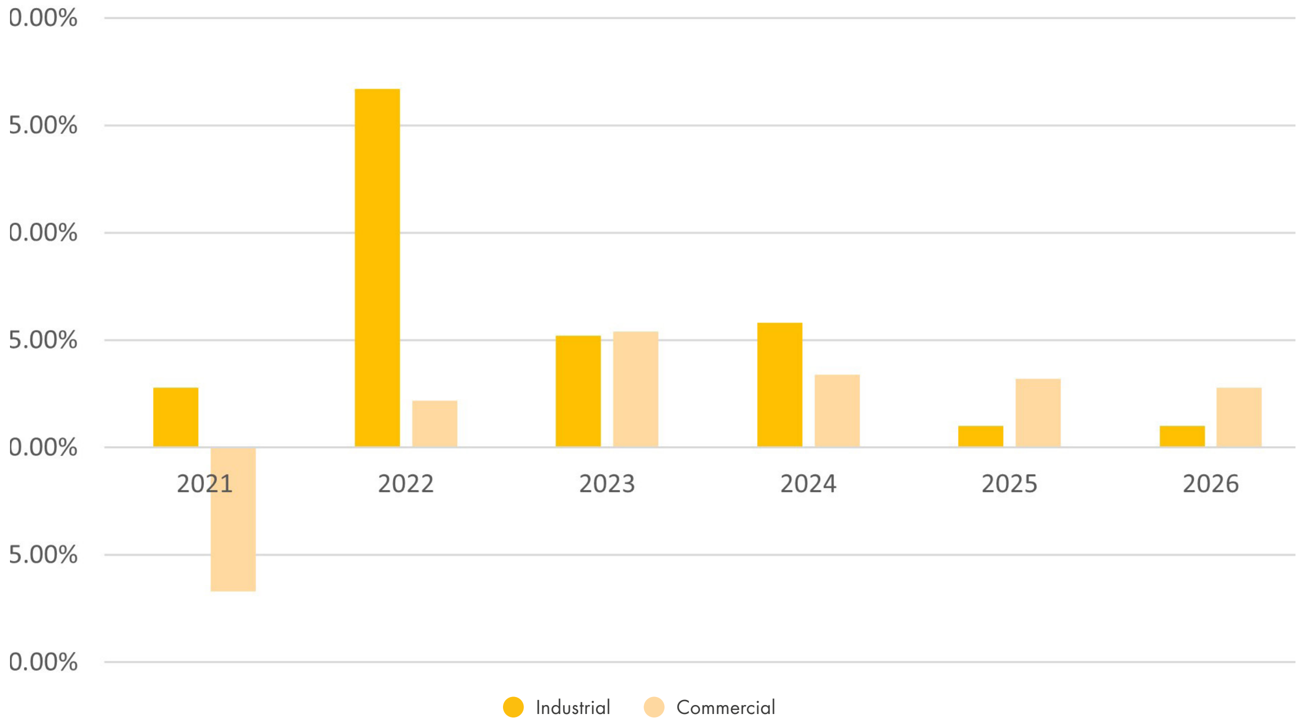
FIGURE 6: PROJECTED CONSTRUCTION MATERIAL PRICES



Source: *Linesight Global Country Commodity Reports* (released 4 August 2022)

FIGURE 7: PROJECTED GROWTH IN UK CONSTRUCTION OUTPUT (PERCENTAGE) FOR INDUSTRIAL AND COMMERCIAL PROPERTY.

Data from a recent CITB report projects growth in UK construction output for both industrial and commercial property over the next four years.



TAKE THE NEXT STEP

The views and figures in this Propertymark Commercial Outlook refer to the UK as a whole. Specific geographic locations and markets (city centre/suburban/etc) will vary.

We strongly recommend that you contact a NAEA Propertymark Commercial agent in your area to discuss opportunities that suit you. You can find your local agent at propertymark.co.uk/find-an-expert

There are several reasons why you should use a NAEA Commercial agent over any other. These include:

INTEGRITY

As members of Propertymark, our agents have a proven dedication to professionalism within the commercial property sector.

COMPLIANCE

Our members have access to the latest legal and best practice guidance.

CUSTOMER PROTECTION

Propertymark member agents are regulated by Propertymark, which is a nationally recognised regulatory brand, and provide high standards of service.

ENDS

ABOUT THE PROPERTYMARK COMMERCIAL OUTLOOK

This report is based on a survey of Propertymark Commercial Agents conducted between 29 July and 15 August 2022. It is further addended with an analysis conducted by Propertymark of key statistics relevant to the commercial property market.

ABOUT PROPERTYMARK

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Propertymark is the leading professional body for estate and letting agents, commercial agents, auctioneers, valuers, and inventory providers comprising nearly 18,000 members. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry leading training programme and mandatory Continuing Professional Development.

The Commercial division of Propertymark represents members who practice from over 650 offices and aim to reassure the public that by appointing a Propertymark Protected agent to represent them, they will be safeguarded and receive the highest level of integrity and service for all property matters.

EDITOR NOTES

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