ECONOMICS

RICS

UK Commercial Property Monitor

Q2 2023

ECONOMICS

Higher interest rates further dampen investment market backdrop

- Upward shift in interest rate expectations places renewed pressure on capital values
- 68% of respondents feel the overall market is in a downturn, with the deteriorating credit environment playing a significant role
- Occupier market conditions are generally a little more resilient although parts of the office and retail sectors continue to struggle

The results of the Q2 2023 RICS UK Commercial Property Monitor point to a renewed setback for the market, with the recent rise in interest rate expectations weighing on investor demand and placing downward pressure on capital values. As a result, a clear majority of respondents (68%) are now of the opinion that the market is in a downturn phase of the property cycle. That said, there are pockets of resilience across occupier markets, with industrials in particular (alongside some more alternative asset classes) continuing to exhibit positive rental growth projections for the year ahead.

Occupier market

The headline tenant demand gauge posted a net balance of -10% in Q2, down from a reading of -3% beforehand. When viewed at the sector level, tenant demand fell across both the office and retail sectors, evidenced by negative net balance readings of -21% and -26% respectively. By way of contrast, a net balance of +10% of respondents noted an increase in tenant demand for industrial space, albeit this is noticeably more modest than the average reading of +30% seen since the beginning of 2022.

Alongside this, availability was more or less unchanged across the industrial market during Q2, while survey participants reported an increase in vacant space within the office and retail sectors. As such, the availability of leasable office and retail space has continued to increase in each quarter since the start of the pandemic, and this has been accompanied by a prolonged period of rising incentive packages on offer to tenants in both sectors.

Twelve-month rental growth projections remain mixed at the sector level. At the stronger end of the spectrum, a net balance of +42% of respondents foresee prime industrial rents rising over the year ahead (albeit this is slightly softer than the reading of +58% returned last quarter). Likewise, prime office rents are anticipated to rise by a net balance of +22% of contributors, similar to last quarter's reading of +29%. However, further emphasising the divide between best-in-class office space and secondary stock, twelve-month rental expectations for the latter remain firmly negative, with the net balance slipping to -47% (down from -37% previously). On the same basis, prime retail rents are seen slipping by a net balance of -23% of respondents, while expectations for secondary retail rents remain mired in negative territory (net balance -51%).

This general pattern is evident right across the UK, with the outlook for prime industrial rents solid for virtually all regions while retail continues to struggle. Interestingly, Central London displays the widest gap between prime and secondary office markets. Indeed, while prime office rents are projected to rise by +3.6% (equalling the firmest outlook across all regions), secondary office rents in Central London are envisaged declining by -6.2% over the year to come. Back at the national level and away from the mainstream sectors, rental growth expectations remain comfortably in positive territory across multifamily residential, aged care facilities, student housing, life sciences and data centres.

Investment market

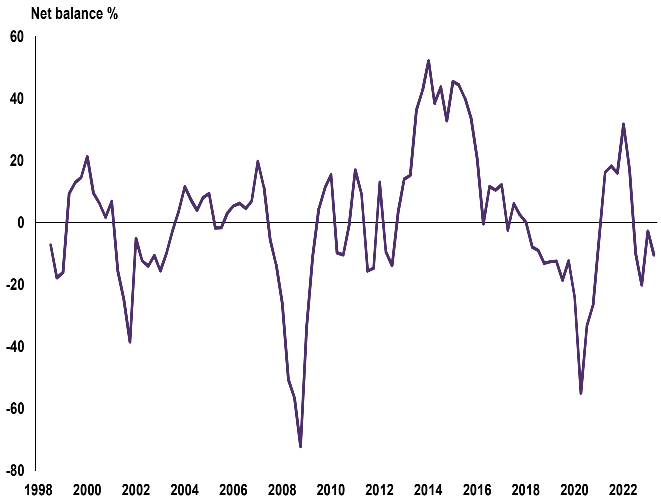
The all-sector average metric capturing investment demand posted a net balance reading of -22% in Q2, marking a renewed decline following a figure of -14% returned previously. Disaggregating the data shows the net balances falling to -34% for both the office and retail sectors, while a flat to marginally negative trend was cited for industrial investment demand (net balance -2%). In each instance, the net balance readings for Q2 weakened relative to those seen in the previous iteration of the survey. At the same time, the downward trend in overseas investment demand has become further entrenched across all mainstream sectors during Q2.

Weighing heavily on investment market activity, the latest feedback signals a significant deterioration in the lending environment during Q2. In fact, the latest net balance of -75% for the credit conditions indicator represents the most negative reading on record (series goes back to 2014), falling from a figure of -37% previously. With bond yields climbing higher over the recent weeks, this appears to have reintroduced downward pressure on capital values.

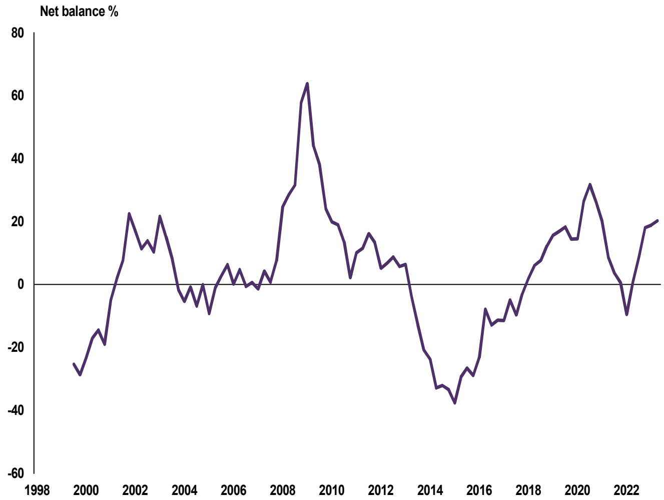
With respect to the twelve-month outlook for capital values, respondents now anticipate virtually all sectors chalking-up declines in the year to come. Secondary retail and office values are seen posting the sharpest falls (returning respective net balances -63% and -54%), while prime retail (net balance -35%) secondary industrial (net balance -15%) and prime offices (net balance -17%) all now exhibit a clearly negative twelve-month assessment for values. Bucking the wider trend somewhat however, prime industrial capital value expectations are broadly flat. Similarly, data centres, aged care facilities and student housing values are expected to prove more resilient and post modest gains over the year ahead.

Commercial property all-sector average

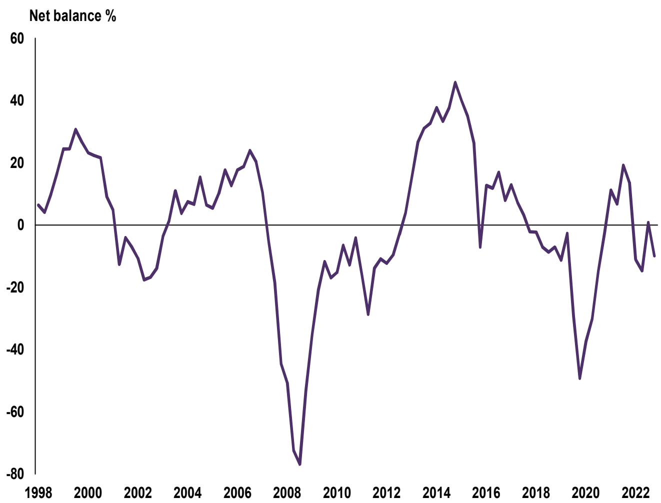
Occupier demand



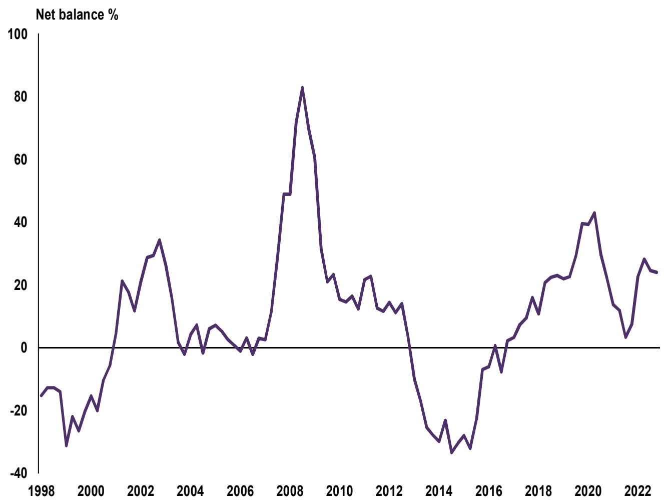
Availability



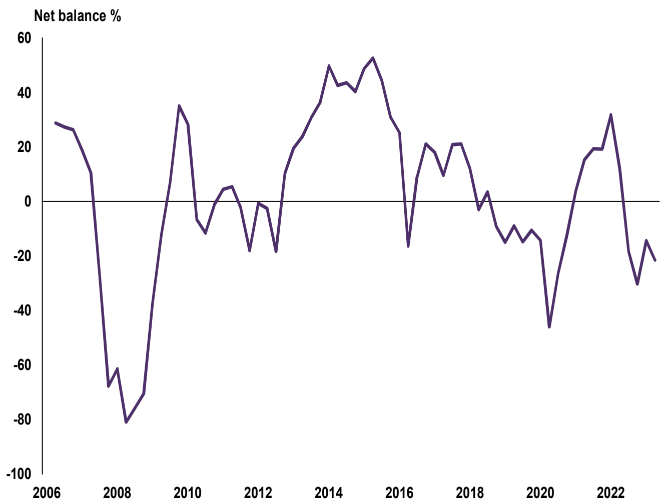
Rent expectations



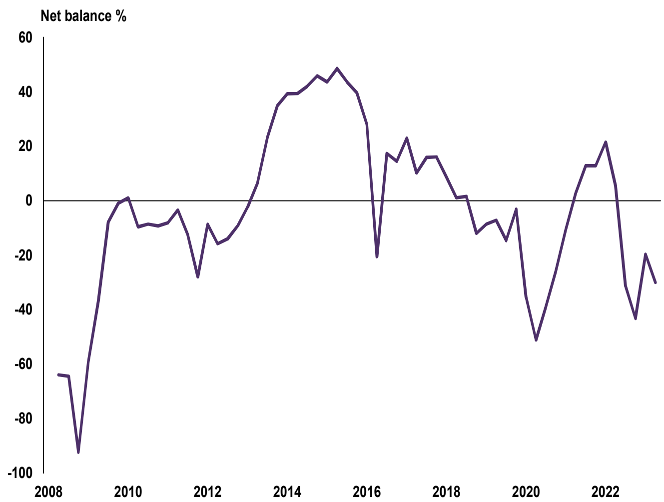
Inducements



Investment enquiries

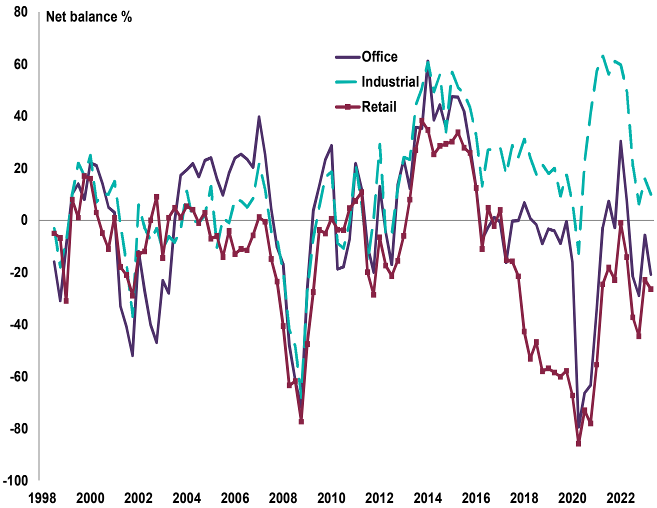


Capital value expectations



Commercial property - sector breakdown

Occupier demand



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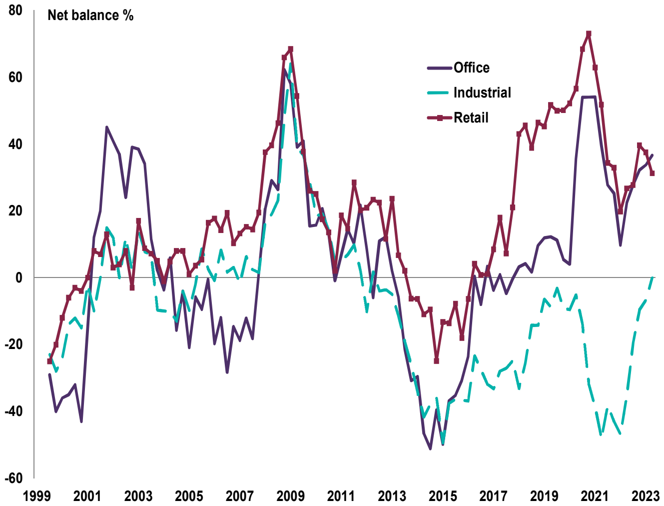
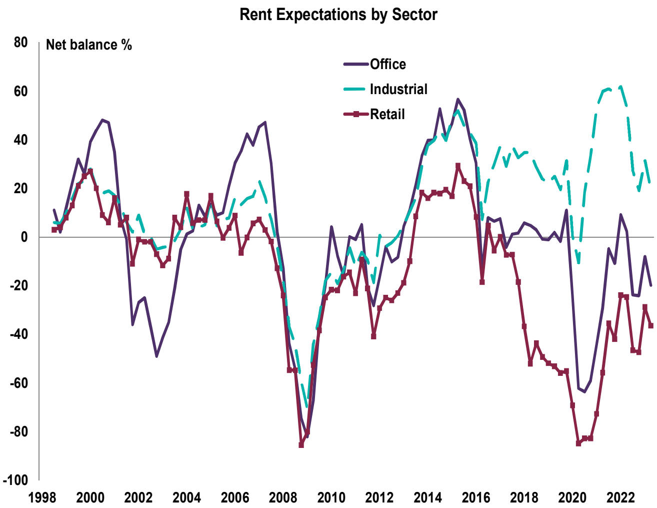


Rent expectations



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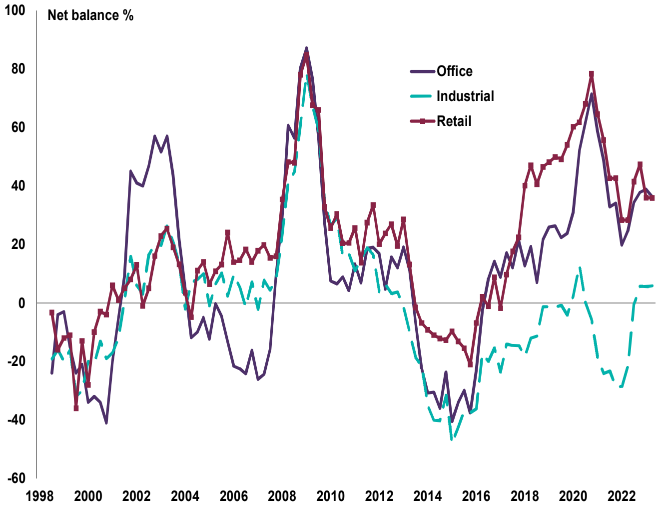

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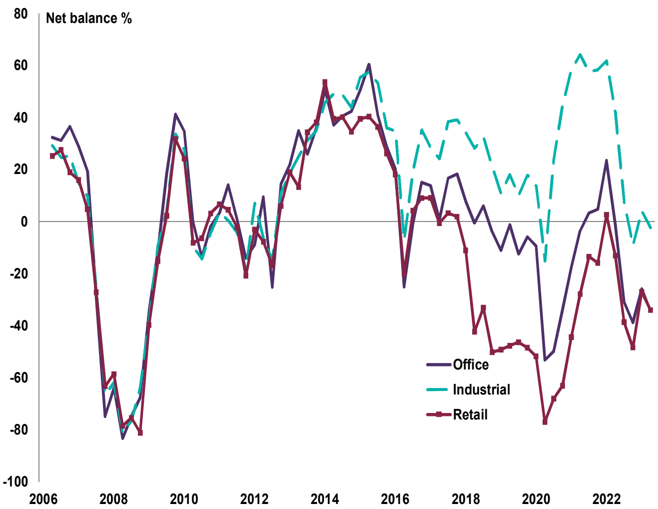
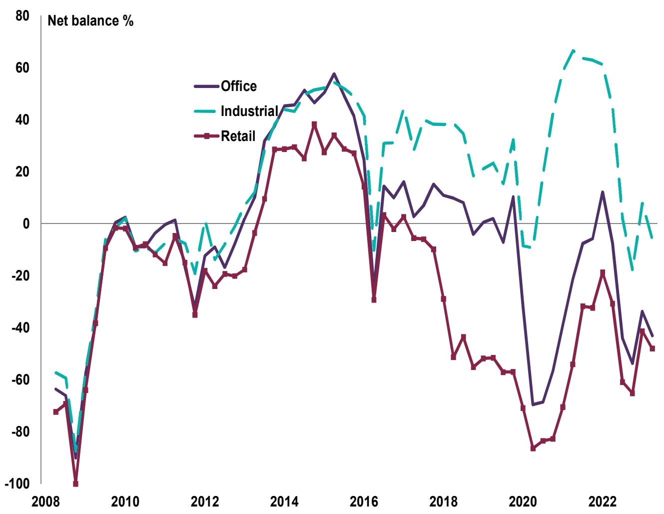


Capital value expectations

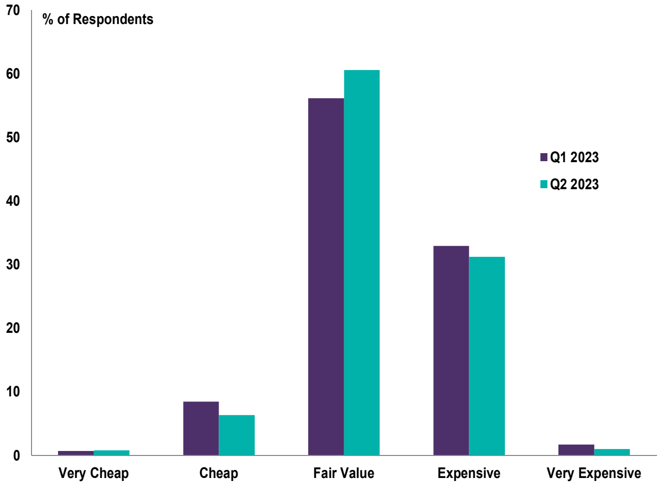


Commercial property - additional charts

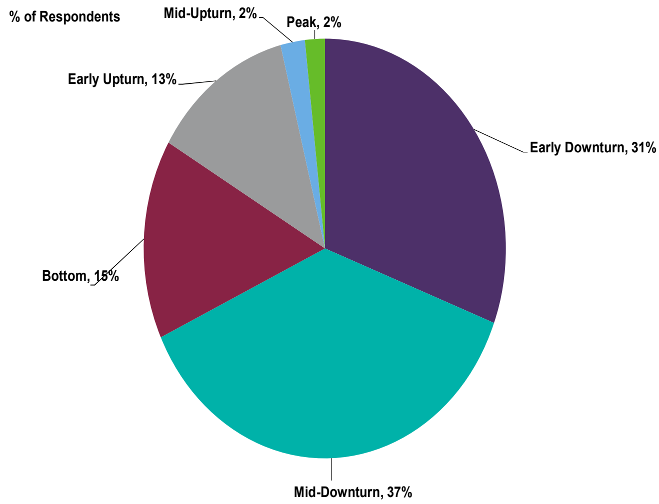
12-month capital value expectations

12-month rent expectations

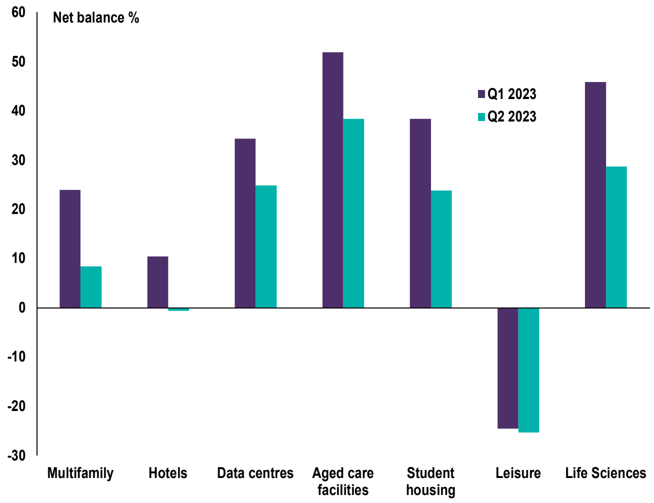
Market valuations



Property cycle



12-month capital value expecations alternatives



Chartered surveyor comments

East Midlands

Brendan Bruder, Northampton, Abbeyross Chartered Surveyors, brendan.bruder@gmail.com - Slow transaction times hampers sense of where we are in the cycle. Added value, repositioning, refurbishment and equity availability are certainly helping investor demand but uncertainty hinders the occupier market.

John Chappell, Skegness, Chappell & Co Surveyors Ltd, john@chappellandcosurveyors.co.uk - A difficult period for the property sector in the UK, not helped by cost of living crisis, political uncertainty and, what could be interpreted as a lack of joined up thinking in the UK Government, are all contributing to falling confidence.

Martin Langsdale, Derby, Raybould & Sons, martin@raybouldandsons.co.uk - Confidence has been lost in the Bank of England who continue to increase interest rates to slow inflation but in reality this is simply not working. Sadly, this is the only tool in their toolbox and the general feeling is that they don't know what else to do.

Robert Mark Otter, Lincoln, Garden Street Limited, markotter@btinternet.com - The lack of sensibly priced mortgage finance could kill any recovery for investors. The reluctance to lend to businesses by Banks will wipe out many companies. All in all a very gloomy picture for business and then when married with the the "constipation" in the planning system, retirement seems very attractive.

Stephen Salloway, Derby, Salloway Property Consultants, ssalloway@salloway.com - Sluggish.

Eastern

Anthony Cooper, Cambridge, Cambridgeshire County Council, tc-ou@hotmail.com - Interest rate rises on top of existing economic situation are creating lots of challenges.

Gordon Ellis, Bury St. Edmunds, Merrifields, gordon@merrifields.co.uk - Energy efficiency relates to EPCs so landlords and tenants - owner occupiers need to be brought in to the mix to make a difference to second hand stock.

Iain Reid, Norwich, Citygate Developments, ireid@citygatedevelopments.co.uk - Poor.

Jeff Fuller, Norwich, OA Chapman & Son Ltd, jeffdfuller@hotmail.com - Uncertainty, particularly over government energy efficiency regulations, is a concern in all sectors. High taxation is a disincentive to investment particularly in the residential sector.

Jon Ablewhite, Colchester, Ablewhite Surveyors Limited, jon@mrallp.co.uk - Demand for offices and industrial remains pretty strong, however, retail (particularly prime retail) is very weak. Some demand in secondary retail market.

Mark Kohler, Bury St Edmunds, Merrifields, mark@merrifields.co.uk - Some evidence of market uncertainty and yields appear to be moving out. Interest rates having an affect on capital values. Occupier demand has slowed. SME office demand poor and increase in business rates likely to exacerbate that.

Oliver King, Stevenage, Stevenage Bioscience Catalyst, oliver.king@stevenagecatalyst.com - Life Science sector continues to grow. REEF and UBS have recently purchased 32 acres of land adjacent to the SBC campus and will be developing 1.6m sq ft of Labs and offices over the next 5-10 years.

Sam Kingston, Norwich, Roche Chartered Surveyors, samk@rochecs.co.uk - The market shows few signs of slowing down in the warehouse sector, with lack of supply being an issue. The office market has seen more activity in 2023 than for some while, but this is from a slow base. The capital market is subdued, as investors wait to see where interest rates will peak.

London

Adrian Sancroft, London, Se1, Southwark Council, adrian.sancroft@southwark.gov.uk - It's tough at the bottom - quality product doing ok.

Adrian Tutchings, Petts Wood, Linays Commercial Limited, commercialproperty@linays.co.uk - Difficult times, inflation is affecting many prospective buyers or tenants decisions on making new investment.

Bradley Sheridan, London, Vistry Group, Bradley.sheridan@vistrygroup.co.uk - Generally found incentives have grown exponentially for tenants across all asset classes, with particular impetus on larger landlord capital contributions.
Investors cautious with yields significantly lengthening, particularly in retail.

Catherine Alleyne, London, Sbhg, Ktease71@hotmail.co.uk - Warming.

Charles Palmer, London, Charles Palmer Property, cp@charlespalmerproperty.com - Still very difficult with Government policy and inertia not helping. Bank of England is inept and appears not to realise it is. Investors and occupiers are now given little incentive to create and invest with a punitive tax regime. Frustrating thing is if Government and the bureaucrats got out of the way, UK plc would have a chance to recover.

Chris Jago, London, Houston Lawrence, chris.jago@houstonlawrence.co.uk - The impact of inflation and rising interest rates has injected more concern into the occupier market and occupier sales in particular have fallen away significantly, often with much reduced valuations below the agreed sale price.

Darren Powell, London, Faraday Property Management And Surveying, darren.powell@faraday-property.com - Tighten your belts; this ride is about to get (even more) bumpy...

Ian Rose, London, M&A Associates, ianjrose1@gmail.com - Market weakening.

James Andrews, London, Klm Real Estate, Jandrews@klm-re.com - Retail demand is principally location driven and environmental performance is largely in the hands of the tenants fit-out.

John Burbage, London, Blackfriars Property Consultancy Ltd, johnb@blackfriarspropertygroup.com - Uncertainty is having a depressive effect on the market.

John Stephen Masters, London, Chase Realty Ltd, steve.masters100@icloud.com - Despite a general level of nervousness about the short term economic outlook, there remains quite strong investor interest in quality buildings in prime locations across retail and office sectors.

Jonathan Baines, London, London International Investment Office, jonbaines@aol.com - The lack of new debt from traditional sources is a real challenge to owners and developers.

Jonathan Manley, London, LSH, jmanley@lsh.co.uk - Soft market with few transactions, heavily influenced by base rate and macro economic factors.

Jonathan Vanstone-Walker, London, Tsp, jvw@tsp.co - Some discounting is starting to make its way into the market now. Anecdotally, people are struggling to refinance all assets but primarily secondary ones. Banks' lending criteria are much tighter. Occupiers continue to downsize and adapt to hybrid. The narrative has positively changed towards the office, but the overall takeup is still falling.

Kamil Chowdhury, London, Petrichor Property Consulting, kamil@petrichorproperty.co.uk - General mispricing aspirations between buyers and sellers, leading to a stagnant market place.

Kevin Bright, London, Hindwoods, k.bright@hindwoods.co.uk - Outer London retail demand, particularly in the 'London Villages' has proven to be strong.

Mark Larard, London, JCI, mark.larard@gmail.com - Things are about to get a whole lot worse. Retail already in a mess, and offices are about to get significantly worse. Industrial will hold up, but there will be limited growth.

Martin Acton, London, Howard Harrison Ltd, martin.acton@hhretail.uk - For prime retail - there is an improvement and there are early signs of some rental growth returning. Green credentials are important though location is still the key priority for prime retail.

Martin Waller, London, Investra, Martin@investra.co.uk - The Gulf investors that we advise are conversant with value falls and would be considered "long" investors in UK real estate. Currently the fixed deposits available in the Gf far outweighs debt backed UK investment. Investors are confused as to what rules/regs will actually apply (EPC etc) and that is leading to people sitting on the side lines.

Michael Rowlands, London, Lambert Smith Hampton, mrowlands@LSH.co.uk - Very difficult market conditions.

Neil Ridley, London, Pemberley Development, nridley@pemberleydev.co.uk - Significant investor nervousness around offices in London.

Nick, London, Coplan Estates, nickdoyle@coplanestates.com - Real nervousness around increasing interest rates and how the market will react.

Nick Barber, Nationwide, NJBHLP, nick@njbhlp.co.uk - Liquidity of hotel sector affected by UK Government contracts for housing of refugees.

Nigel Harrison, London, Harrison Leggett, nh@harrisonleggett.co.uk - Central London office market has polarised into Grade A best in class in high demand and short supply holding at high rents. Secondary offices little activity and rents are stagnating. I fear the 'fully fitted flexi' office market becoming saturated, with many landlords arriving "late to the party".

Nigel Pickup, London, Tfl, nigelandlisap@btinternet.com - Occupier markets stable, capital values continuing to weaken.

Paul Wolfenden, London, Pw&A Ltd, Paul@paulwolfenden.com - With over 45 years experience in real estate I cannot recall a market that has so lost its way in such a big manner.

Sean Dempsey, London, Boultbee Ldn Capital Limited, sean@boultbeeldn.co.uk - Occupier demand continues to be supressed by economic and other uncertainties: inflation, interest rates, return to office rates, etc. This is potentially building significant demand for the point when economic certainty returns, when building quality and environmental performance are likely to be key drivers.

Selwyn Midgen, London, Achilles Investments Ltd, s.midgen@donigtoninvestments.com - There is a general awareness of interest rate movements but buyers and sellers expectations are too far apart.

Stephen Pay, London, Bossington Partners, stephen.pay@bossington.com - Green credentials come at a cost which is beyond the budget of a significant number of occupiers.

Stuart Findlay, London, Real Estate Consultancy Ltd, sfindlay@realestateconsultancy.co.uk - I operate across England & Wales so situation is mixed. Onwards & upwards in many parts of Greater London and the usual other locations across England & Wales, like Guildford. Slow / static in the rest. Decent retail demand in many areas.

Tim Edghill, London, Space Asset Services Limited, tedghill@spacedevelopments.org.uk - The green agenda is the talking point for the market, but given economic pressures, at present there is not as clear a pricing or demand distinction between the ranges of green / low carbon buildings and non-green buildings as there should be. The costs of developing green and the challenges of greening older buildings means it will take time for a real distinction to become commonplace.

Tony Parrack, London, TP Consult, tonyparrack@tpconsult.co.uk - New buildings and better refurbs take sustainability and green issues into account in the design. In reality, tenants buy into it but don't really know what they are looking at - even relatively sophisticated ones. Will they pay more for this? Hmmm... if they want the best, they will pay more but that does not mean that they have requested, say, rainwater harvesting or solar panels.

Tristram Frost, London, Atlas Property Advisors Limited, twtfrost@googlemail.com - Very thin market especially in Western Europe. Still a significant disconnect between buyers and sellers price expectations.

W Nicol-Gent, Richmond, Killochan & Co, louanna@blueyonder.co.uk - Notable how many Estate Agents are leaving the High Street.

William, London, Vectis Property Group, wspencer@vectispropertygroup.co.uk - London prime / large office will be resilient. London prime small office will be VERY resilient. Other office sectors will be hit hard.

North East

Andrew Keith Frazer, Newcastle Upon Tyne, Frazer Property Consultancy Ltd, keithfrazer7@aol.co.uk - Problematic.

Barry Nelson, Newcastle Upon Tyne, Northern Trust Company Limited, barrynelson@northerntrust.co.uk - The industrial multi-let market remains resilient in the North East with enough pent up demand to absorb slightly increasing vacancy rates. Rents have increased over the last 24 months but may start to level out with cost pressures for occupiers being dictated by significant increases in borrowing costs, power, materials prices and wages.

Brian Welsh, Newcastle Upon Tyne, Opre Solutions, brianwelsh@opresolutions.co.uk - Remaining bid-ask spread resulting in some slowing down of transactions.

David Downing, Newcastle Upon Tyne, Sanderson Weatherall Llp, david.downing@sw.co.uk - Definitely a sense of nervousness in the market, with the likelihood of increased funding costs set to knock on to investor and occupier confidence. There are still pipeline issues for office development in the NE and the problem of aging buildings in the industrial and logistics sector are likely to bite harder with the expected increases in MEES over the next few years.

James Clare, Newcastle, Northumbria Police, james.clare@northumbria.police.uk - There is still clearly strong demand for the very best quality office space, but little/reducing demand for secondary/tertiary type properties. Occupiers want to provide their staff with the best possible working environments and amenities. There is still a lack of supply of the best quality and there has been upward pressure on headline rents for those premises.

Kevan Carrick, Newcastle Upon Tyne, Jk Property Consultants Llp, kevan@jkpropertyconsultants.com - Continuing demand for freehold sites for development/owner occupation. Increasing interest for Build to Rent residential development. Otherwise, a quiet market.

Richard Storry, Middlesbrough, Lithgow Sons And Partners, richard@lithgowsauctions.com - Good for industrial, tough for offices and retail.

North West

Brian Ricketts, Liverpool, Hitchcock Wright & Partners, brianricketts@hwandp.co.uk - Sense of unease in all sectors as interest rates prove unpredictable and difficult to forecast the effects on the economy.

Daniel Harris, Manchester, Daniel Harris And Company, dh@dh-property.co.uk - Uncertainty.

Jason Rawson, Blackburn, Trevor Dawson Limited, jason@tdawson.co.uk - Slight downturn save for industrial land quality investment.

John G Fifield, Manchester, Fifield Glyn, john.fifield@fifieldglyn.com - Higher interest rates and lack of bank finance are adversley effecting demand.

Jonathan Brownlow, Manchester, Landwood Group, jdb@wignallbrownlow.co.uk - Whilst demand remains strong in the industrial sector, the cost of capital and associated economic pressures could adversely impact the market.

Jonathan Mills, Manchester, Metis Estate Advisors Limited, jmills@metisrealestate.com - Very uncertain and some stagnation. Debt costs and cost inflation are having a significant impact.

Jonathan Owen, Liverpool, Jorelaestate Ltd, jonathan@jorealestate.co.uk - Due to the world economics of Ukraine, along with interest rates rises, banks becoming more risk averse. Add in higher utility costs and there is considerable uncertainty in the world and the UK economy.

Martyn Garner, Stockport, Cheshire, Garner & Sons, martyngarner@garnerandsons.co.uk - Demand from investors is sustained throughout the whole of the South Manchester commuter belt, based on strong capital and rental growth over the longer term.

Richi Peters, Liverpool, Platform, richi@weareplatform.co.uk - Grim up North - our capital values are so low that we can't bring buildings out of the ground. Green credentials don't even start to matter if you can't build it in the first place.

Robert, Isle Of Man, Keith Dalrymple Chartered Surveyor, Keith.dalrymple@outlook.com - Political and economic uncertainty is undermining confidence. Funding costs also are adversely impacting investment.

Northern Ireland

Arthur Nugent, Newry, Young-Nugent, achn488@outlook.com - A lot of uncertainty out there worldwide. Everyone has become more aware of inflation - cost of living -war, rising interest rates etc, all of which have a very negative influence on investment.

Scotland

Alasdair Humphery, Edinburgh, JLL, alasdair.humphery@jll.com - Debt markets are slowing everything down and making many projects unviable - add to that inflation, cost of utilities, labour shortages and wage inflation and higher cost of materials and we have a perfect storm... the horizon to escape just got longer.

Andrew Legge, Grangemouth, Ladbrokes, andrew.legge@entaingroup.com - Difficult retail market to predict given the direction of travel for interest rates vs reduced energy costs from the peak (though higher than before the energy price crisis) and the impact of these factors on consumers.

Giles Edgar, Edinburgh, 1910 Investments Limited, e1910.office@gmail.com - Tightening credit conditions are stalling markets.

Lorraine Taylor, Aberdeen, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, lorraine.taylor3@aberdeenshire.gov.uk - The property market in my area which is Peterhead, Banff and Fraserburgh is relatively buoyant.

Paul Trotter, East Lothian, East Lothian Council, ptrotter@eastlothian.gov.uk - Significant drop in demand for retail units, combined with drop in quality of prospective tenants. Considerable lack of supply of small industrial units.

Richard Lang, Aberdeen, Ryden Llp, richard.lang@ryden.co.uk - Aberdeen economy and property market is being impacted more than anywhere by political untruths and opportunism over the transition to green energy from fossil fuels. The UK will remain reliant on fossil fuels for decades. Yes we should transition to a carbon neutral nation but politicians need to be informed about how that will happen. The UK should use its own oil and gas resources rather than imports but short-term political opportunism is killing oil and gas recovery from the UKCS.

Stuart Hall, Glasgow, Kingsmead Developments, stuart@kingsmeaddevelopments.co.uk - There is huge uncertainty on many fronts at the moment from a global perspective, inflation, interest rates and cost of living crisis all contributing to volatility in occupational, development and investment decisions.

South East

Chris Thomas, Windsor, Christopher Thomas & Co Ltd, ct@chthomas.com - The BoE failed to identify the level of inflation drive, although they could not have forecast Russia / Ukraine / impact on fuel / energy costs, so some saving face. High employment is driving salaries, feeding into the cycle. Interest rates will rise to 5.75%. 1.4 million households will be effected 2023, and a further 1.3 million next year as their fixed rates expire. The housing market will dampen. Investor demand will decrease through 2024 whilst values across property sectors adjust.

Colin Brades, Brighton & Hove, Avison Young, colin.brades@avisonyoung.com - The prime retail sector in the city remains reasonably buoyant with limited vacancies for units meeting the small number of expanding retail requirements. Values generally remain unchanged during 2023.

Culvewell, Winchester, Culverwell Consulting, jim@culverwellconsulting.co.uk - Occupiers are a diverse bunch, so generalising is dangerous but the majority are concerned with cost now and into the future and with avoiding nasty surprises. A lot of other stuff is an optional aspiration rather than a driver for them.

Dan Onion, Oxford, Thomas Merrifield, danonion@thomasmerrifield.co.uk - Despite signs that the economy is starting to move towards recession, demand is high and rents have risen in most sectors, especially prime office.

David Martin, Brighton, Shw, dmartin@shw.co.uk - Transactions across all sectors are taking too long to complete. There seems to be a lack of urgency. High quality offices are letting well and demand is significantly outpacing available industrial supply, leading to continuing increases in rents.

Geirge Musgrave, Guildford, Guildford Borough Council, george.musgrave@guildford.gov.uk - Office occupier demand is very low in Guildford. Industrial demand however is buoyant, especially on sub 2000 sq. ft. good quality units. Retail seems to be in a process of occupier change in Guildford High Street with some chains pulling out and smaller retail chains (and some independents) taking on prominent units.

George Barnes, Faversham, Shepherd Neame Ltd, gbarnes@shepherdneame.co.uk - Inflationary pressures are eroding margins.

Gregory Park, Chichester, Parksteele, gregory@parksteele.com - Uncertainty in the economy combined with the increases in interest rates and costs of significant input items (e.g. energy & loan payments) which have not been able to be offset by most industries price increases therefore there is a wider withdrawal of investment and growth money from the wider working economy. Stagflation is perceived to be potentially on the cusp with the gap between the traditional economy and wealth funds widening.

Hamish Macalister, Portsmouth, Holloway Iliffe & Mitchell, hamish@hi-m.co.uk - Market is starting to slow and there is a bit of nervousness around.

Iain Steele, Farnham, Park Steele, iain@parksteele.com - The market remains busy but there is now some caution among occupiers and the legal process is frustratingly slow.

Ian Sloan, Banbury, Bankier Sloan, reception@centre-p.co.uk - There remains strong demand for all industrial premises. Locally the economy is doing fine, unless you're in the retail sector.

John Hempton, Lymington, Hempton Franks, jjh@hemptonfranks.co.uk - Political and economic fear for the immediate future and medium term with inflation and interest rates increasing has led to much greater caution in all sectors.

John Lytton, Horsham, Lfp Ltd, john.lytton@lfpltd.com - Great deal of uncertainty over planning, interest rates, legislation, economy.

John Macdonald, Orpington, William Nash Properties Ltd, j_macdonald01@btinternet.com - UK governments do not properly understand that vote winning changes to property legislation and controls often have adverse effects on the supply of new development and sites for development. They could do more to facilitate the reduction of the built environment's impact on climate change.

John Taylor, Maidstone, Hen & Duckhurst Professional Services Ltd, jmt@henandduckhurst.com - A pretty dull market at present.

Julian Diamond, Buckinghamshire, Guildhouse Uk Ltd, julian.diamond@gldhse.com - Market conditions vary significantly throughout the different asset classes and location around the UK. Demand has definitely increased in Q2 after very benign first quarter.

Julian Scannell, Chatham, Watson Day Chartered Surveyors, Julianscannell@watsonday.com - I think that the recent increases in the cost of finance, coupled with general price/cost inflation, will cause the markets with which we are familiar - warehouse/distribution/industrial on industrial estates and (mainly) purpose built offices to slow, leading to a reduction in demand, rents and capital values.

M J G King Frics Mba, South East England, Eversleigh Investment And Property Company Ltd, malcolm.king@eversleigh.uk.com - The shortage of employment land in the areas of greatest demand in the South East of England is balancing a minor reduction of demand from tenants of mid sized units. Demand for small units remains very strong despite large increases in rents and freehold purchase prices in the last 18 months. Industrials have the added benefit of both demand pull and cost push. The biggest threat to the market at the moment is the cost of borrowing including the continuing threat of still more increases in rates.

Mark, Maidenhead, Page Hardy Harris, mark@pagehardyharris.co.uk - The office market will improve as back to the office comes back to almost pre Covid levels. Home working will diminish across the board, as the benefits of working from home are measured by employers and the truth comes out.

Nick Hanson, Farnham, Vospers Friend & Falcke (Incorporating Emberson & Co), nick.hanson@vospers.net - Inevitably activity has been stalled by reduction in confidence owing to general economic outlook. There remains a wall of demand from many occupiers/investors apparently poised to make strategic decisions once the outlook improves. Talk of recession from policy makers is not helplful; opportunistic buyers prevail.

Paul Baker, Leatherhead, Austin Baker, paul.baker@austinbaker.co.uk - Increased interest rates leading to lower supply of mortgages are negatively impacting property values. Current investors/owners are reluctant to sell at lower prices so there is reduced supply in the market.

Philip Marsh, Beaconsfield, Philip Marsh Collins Deung, philip@pmcd.co.uk - As always when there is uncertainty in the economy, different market sectors appear to behave independently. We have seen positive signs in the retail sector and with retail investments, a bit of a downturn with industrial and with offices remaining consistently poor.

Simon Browne, Brighton, Crickmay, scb@crickmay.co.uk - Relatively high wealth and available cash resources in the investor sector are underpinning the commercial property market in the more affluent South East.

Simon Lawson, Brighton, Bruton Knowles, simon.lawson@brutonknowles.co.uk - A conflicted market with rising interest rates not effecting demand as significantly as one would expect due to lack of investment stock.

Simon Westwell, Marlow, Churchill Property Group, simon@churchillpg.com - Market activity is quiet in the morning and tails off after lunch!

Stephen Ray, Redhill And Reigate, Shw, sray@shw.co.uk - Market demand somewhat hampered following increase in inflation.

William Dick, Billingshurst, William G Dick Partnership Llp, wgdick@williamgdick.co.uk - Somewhat uncertain due to interest rate uplift and inflation.

South West

Andrew Kilaptrick, Swindon, Kilpatrick & Co, a.kilpatrick@kilpatrick-cpc.co.uk - Swindon's commercial market is relatively subdued, reflecting current economic conditions and base rate rises. Whilst demand for offices is slack, supply is limited and a number of relocating companies are struggling to find suitable offices. Plenty of retail space available, but mostly large units for which there is little demand, but smaller shops are still letting. Industrial market has cooled a little as business rate increases impact occupation costs.

Anne Brennan, Bournemouth, Sibbett Gregory, anne@sibbettgregory.com - Poole in revival mode ahead of nearby Bournemouth, particularly in terms of retail with investment drawing new interest in the town centre. Industrial demand remains strong due to lack of new development, though new schemes in the pipleline are drawing good interest. Office sector continues to improve.

Bryan Galan, Dorset, Mellawood Properties Ltd, bryan.galan@outlook.com - Little demand from retailers and rents continue to be rebased. Utility, labour and material costs still impacting on users/occupiers.

Christopher Cluff, Taunton, Cluff Commercial Ltd, chris@cluff.co.uk - Continuing strength of the industrial/small units sector caused by lack of supply.

Colin Stribling, Marlborough, Nhs Property Services Ltd, colin.stribling@property.nhs.uk - I work within the NHS and a specialised sector managing freehold and leasehold buildings for the delivery of healthcare. The NHS is not subject to the same market trends and the pressures are generally financial and politically driven.

Gcthorne, East Dorset, Thornes, graham@thornes.org.uk - The general market is very price sensitive and is subject to the recent bank rate changes.

Hugh Macnish Porter, Bath, Benison Capital, Hugh@benison-capital.com - Investors are trying to price the risks from rapid structural shifts in the demand for commercial real estate across the sectors at the same time as pricing the rapidly moving cyclical risks of financing cost and yield premiums. Throw in the focus on sustainability and energy efficiency which will further drive polarisation between prime and secondary markets. Capital values have ballooned from a decade of zero interest rates and QE and this has to unwind.

Ifan Rhys-Jones, Plymouth, Listers Property Consultants, irj@listers.uk.com - Occupier demand remains patchy, while supply has increased so far. This is only putting pressure on incentives, but rents are holding.

John Corben, Swanage, Corbens Professional, john@corbens.co.uk - Both tenants and investors are cautious, concerns about increasing interest rates and general uncertainty in the UK's economy are of paramount importance.

Matt Norton, Highnam, Border Consultancy Chartered Surveyors, matt@borderconsultancy.co.uk - Business as usual for many clients. Some are slowing down acquisitions and market activity. Industrial continues to garner higher rents than previously due to a lack of supply.

Michael Ripley, Weston-Super-Mare, Stephen & Co, michael@stephenand.co.uk - Office and retail markets remain difficult, but industrial sector moving forward. New starts limited due in part to land availability and cautious approach by investors/developers.

Mike Nightingale, Truro, Miller Commercial Llp, msn@miller-commercial.co.uk - Occupiers, buyers and investors are all very cautious which is leading to prolonged transaction times.

Oliver Workman, Cheltenham, Thp Chartered Surveyors, oliver@thponline.co.uk - Patchy is the word which sums up the commercial property market in Gloucestershire at present. The gap is widening between Grade A/Secondary office space. Rent reductions, more incentives and lower demand on secondary space and continued demand, lower incentives and rents rising on Grade A stock. Industrial continues to perform well albeit a softening in the pace of growth in that sector. Landlords have adjusted their aspirations for prime retail which has resulted in increased turnover.

Richard Pierce, Bristol, Wicks & Pierce, posat@wicksandpierce.co.uk - Poor consumer demand fuelled by rising costs, general money market conditions etc.

Tim Wrigh, Dorchester, Greenslade Taylor Hunt, tim.wright@gth.net - The commercial property market is generally quieter with lower enquiry levels. As usual, the most active sector is prime industrial with good demand, particularly for small units.

Wales

Richard J Ormond, Pembroke, Guy Thomas & Co, enquiries@guythomas.com - Static at best.

West Midlands

Andrew Benson, Birmingham, Wright Silverwood, andrew.benson@wrightsilverwood.co.uk - Headwinds are coming.

John Emms, Dudley, John Emms Commercial, john@johnemmscommercial.co.uk - Freehold industrial capital values are holding steady with good occupier demand still being experienced. High street retail trading is struggling - this also applies to major out of town shopping centres eg Merry Hill. Many large office buildings are being converted to residential due to workers still operating from home post pandemic.

Michael David Jones Frics, Herefordshire, Michael D Jones Ltd, Mjones5400@yahoo.com - The commercial property market now seems very shaky and there is a 1990/2008 feel in the air I believe.

Neil G Harris, Birmingham, Lane Cove Properties, neil@lanecoveproperties.com - The market is watching interest rate movements very closely; is it a short term movement or long term trend?

Tim Reed, Hereford, Sunderlands Llp, t.reed@sunderlands.co.uk - The market continues to be quite challenging, especially for offices and retail. Industrial remains strong especially for units of good quality and freeholds.

Yorkshire & the Humber

Alison Wright, Leeds, EY, alisonwright2000@hotmail.co.uk - Sense of nervousness around interest rates.

Andrew Mcbeath, York, Mcbeath Property Consultancy Ltd, andrew@mcbeathproperty.co.uk - Deflated sentiment and general air of caution inhibiting decision making.

Barry Crux, York, Barry Crux And Company, barry@barrycrux.co.uk - Market quite flat. Noticeable decline in enquiries and appetite over the last 6 weeks or so. This is largely due to interest rate rises and difficulty in borrowing funds on reasonable terms. Confidence has slipped. Uncertain future and lack of real initiative and help from Government. Good quality light industrial and warehousing units still have good demand. Retailing suffering but York cushioned by very strong tourism sector. Licensed, restaurants and leisure having poor time.

Edward Wright, Sheffield, Wright Chartered Surveyors, edward@wrightsurveys.co.uk - Inflation and rising interest rates are hitting confidence in all sectors.

John Hornsby, York, John R Hornsby Chartered Surveyors, info@johnrhornsby.co.uk - General enquiry levels seem to have slowed but there is still reasonably good demand for secondary retail units in suburban locations.

Malcolm Stuart, York, Malcolm Stuart Property Consultants Llp, malcolm@malcolm-stuart.com - Interest rates are causing concern especially as they are likely to go higher before the end of the summer.

Richard Corby, Leeds, Lambert Smith Hampton, rcorby@lsh.co.uk - Whilst industrial markets are generally holding up despite reduced demand, the office sector is struggling to get deals completed. I am seeing rents soften a little, with the flight to quality meaning that secondary or tertiary space is difficult to shift, making it more attractive to consider alternative uses where possible. Supply is increasing but is still tight in many locations and new starts are becoming more infrequent.

Richard Flanagan, York, Flanagan James, richard@flanaganjames.com - Levels of demand have declined particularly in the warehouse/industrial sector which had seen healthy activity post COVID. Occupiers are pausing expansion/relocation plans - undoubtedly the current economic climate is having an impact.

Richard Heslop, Ilkley Nr. Leeds, De Commercial, richard@de-commercial.co.uk - The market has suffered from 9 consecutive interest rate rises, price rises in building products and the fall out from Truss Economics. The result has been creating an atmosphere of uncertainty, and developers, particularly in the residential sector, are sitting on sites rather than moving forward with development as they see margins squeezed.

UK Commercial Property Monitor

RICS UK Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the facilities management market.

Methodology

Survey questionnaires were sent out on 14 June 2023 with responses received until 14 July 2023. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 539 company responses were received.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

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Disclaimer

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