

## **Commercial Real Estate Market In The United Kingdom - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)**

Market Report | 2023-01-23 | 120 pages | Mordor Intelligence

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### **Report description:**

The UK commercial real estate market is expected to record a CAGR of approximately 5% during the forecast period. Real estate was badly hit by the COVID-19 pandemic, with a sharp decline in values across all markets and sectors. Confidence in the UK property market had already been knocked by the uncertainty concerning Brexit.

#### Key Highlights

The UK commercial real estate sector faced many challenges in recent years, from protracted Brexit negotiations to the coronavirus (COVID-19) crisis. Despite this, the United Kingdom remains one of Europe's leading markets for commercial real estate. Leaving the European Union has not helped the United Kingdom to address severe labor and material shortages and crippling supply chain issues.

Early investment market data for Q1 2022 shows the continuing growth of GDP. Record-high volume in the GBP 100 million (USD 131 million) lot size range boded well for a further uptick in volume in 2022. Sectors that were out of favor, particularly shopping centers, showed signs of a renaissance. However, rising interest rates and swap rates were key risks for the cost of finance. Inflation rose to its highest level in almost 30 years due to various macro environmental factors, including supply chain disruptions, labor and skills shortages, and the global recession caused by the Covid-19 pandemic. Inflationary pressures on materials and labor further increased costs post-pandemic, causing significant problems for the industry.

With the reopening of the economy, consumers spend the money they could not during the lockdown, and hence demand is outstripping supply in many areas. The problem is exacerbated by rising material and storage costs, along with global supply chain challenges.

It is unclear how much UK GDP contracted in 2020 and 2021 due of Brexit (as opposed to the pandemic). However, like many other countries, the UK economy is recovering quickly. According to ONS figures for October 2021, GDP was just 4.4% below its pre-pandemic level in late 2019. Such economic growth could inspire confidence in investors and developers, especially those

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overseas, where the pound is weakening after Britain's Brexit. This confidence may help ease concerns about businesses post-Brexit. However, practical issues around timely deliveries of goods and materials and the limited availability of certain workers may remain.

## Commercial Real Estate Market Trends

### Growing Investment in Industrial and Logistics Real Estate in the United Kingdom

The UK logistics sector's transformative change is driven by factors, such as decarbonization, growth of e-commerce, Industry 4.0, and the need for a resilient supply chain. Greater Lincolnshire benefits from its strategic location in the United Kingdom, providing large ports and distribution centers and fast multimodal access to the national and global markets. The emergence of new technologies and the rising demand from agrifood and low-carbon energy industries are some of the profitable opportunities for logistics companies.

Location can provide a competitive advantage for success in times of market turmoil and chance. Hence, large companies, such as XPO Logistics, Able, Magnavale, and Gousto, recently made a quality investment in the region's logistics area.

Over USD 21.56 billion of industrial assets were traded in 2021, an annual total that stands as the strongest year for industrial investment. This figure is 60% more than the total in 2020. Additionally, the sector accounted for 29.0% of all the UK real estate investment activity by value in 2021.

Industrial real estate remains the highest conviction asset class for investors, with annualized returns of 38.2% capital growth in the 12-months ending December 2021. This was driven by continued strength in the occupier market, which drives record rental increases and record-low vacancy. Some of the largest transactions include Blackstone and Valor's USD 203.7 million purchase of Gemini Park in Beckton and CBRE GI's USD 184 million acquisition at Fenny Lock in Milton Keynes in Q4 2021.

### Declining Vacancy Rates and Increasing Rents of Office Spaces in London

There was a resurgence in demand in the Greater London and South East office market in 2021, after the weaker take-up recorded in 2020 due to lockdowns. Take-up reached 3.5 million sq. ft in 2021, which reflected a 46% and 12% increase in the take-up recorded in 2020 and 2019, respectively.

The transactional activity was only 2% below the pre-COVID-19, illustrating the healthy levels of occupier activity in the market. The Western Sector was the most active geographical region, accounting for 45% of the total take-up recorded in 2021.

The market received a confidence boost, with several large corporations committing their long-term future to the region. This included Unilever, ITV, and Intercontinental Hotels Group, which all leased over 50,000 sq. ft. in 2021.

There were 10 deals recorded over 50,000 sq. ft, which was the highest total since 2018 and the second-highest quantum in the last five years. Notable transactions in Q4 2021 included Skanska leasing 67,000 sq. ft at Leavesden Park, Watford, and EY acquiring 26,000 sq. ft at R+, Reading.

Major industry rents rose 4.3% in the first quarter of 2021. London's industrial sector is a growth engine, with prime rents up 6.9% in the first quarter of 2021. Industrial land in the southeast is one of the weaker regions, recording 3.1% rental growth. This suggests that tenant demand across the country remains strong, despite slower growth than in London, compared to 3.2% in the rest of the UK (excluding SE and East). East Midlands rents were flat for Q1-2021, making it the only region not reporting rent

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growth.

Key industry yields rose 12 basis points in the first quarter of 2022, bringing all-industry yields to 3.9%. Industrial stocks in London and South East returned 3.4% and 3.8%, respectively, below the industry average. Prime yields in the rest of the UK (excluding SE and East) rose 17 basis points to 4.6% in Q1-2022.

## Commercial Real Estate Market Competitor Analysis

The commercial real estate market in the United Kingdom is fragmented due to a low level of market share concentration. The industry is highly competitive. The UK property market is extremely attractive to investors at the domestic and international levels.

Property tech is a growing sector in the country, as it is easier to invest, buy, and sell than the usual process. Some players in the market are Land Securities Group PLC, Segro PLC, British Land, Derwent London, and Hammerson.

Additional Benefits:

The market estimate (ME) sheet in Excel format  
3 months of analyst support

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