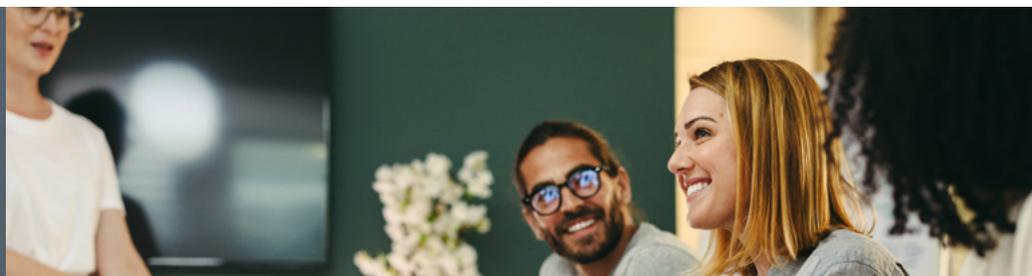


COMMERCIAL PROPERTY MARKET REVIEW

JUNE 2023



Our property market review is intended to provide background to recent developments in property markets as well as to give an indication of how some key issues could impact in the future.

We are not responsible or authorised to provide advice on investment decisions concerning property, only for the provision of mortgage advice. Commercial lending is available by referral to a master broker. We hope you will find this review to be of interest.

FIRMS OFFICE SPACE INTENTIONS OVER THE NEXT THREE YEARS

A recent survey conducted by property consultant Knight Frank and Cresa, a commercial real estate firm, has highlighted that over the next three years, half of the biggest international employers (those with more than 50,000 employees) are anticipating reducing their global office space by between 10% and 20%.

This appears to be a direct result of the challenging post-COVID workplace. Of the 350 businesses surveyed, over half (56%) are choosing to adopt a hybrid approach to working, with 31% adopting an 'office only' or 'office first' approach. Only 12% of respondent firms are planning a fully flexible approach where staff would be mostly or entirely remote.

In the search for better quality office space, many organisations plan to move – leading to increased demand for higher quality and more sustainable office space. Global Head of Occupier Research at Knight Frank, Lee Elliott, commented on the future office space strategies of firms, *"Now that we are in a truly post-pandemic world, corporate decision-makers are 'removing the blinkers' and making clear decisions around their future corporate real estate strategy based on a broader array of business issues than just the pandemic. Firms are looking to work their offices harder, but still offer some flexibility to staff."*

Interestingly though, the survey did show that of the smaller firms surveyed (up to 10,000 employees), 55% were expecting to increase their global office space.

UK HOTEL TRANSACTIONAL ACTIVITY

According to the recently released 'UK hotel market overview' from leading hotel agency and investment property practice Avison Young Hotels, transactional activity this year has slowed, with Q1 2023 figures down 33% year-on-year. This slowdown has been attributed to 'interest rate increases in response to high inflation and the increasing cost of debt.'

Despite the evident slowdown, strong demand for regional asset sales was a theme at the start of the year – the 232-room Queens Hotel in Leeds and the 201-room Grand Hotel in Brighton were snapped up for approximately £53m and around £60m respectively. Both locations have benefited from the increase in demand for domestic leisure following the pandemic and are key landmarks in both destinations.

London remains a core driving sub-market, exemplified by the recent acquisition of the Covent Garden Hotel for £55m, the highest per key (£948,000) for the property to date, reinforcing *'the strength of the luxury boutique hotel sector.'* Other significant London sales this year include a 192-room hotel in Finsbury Park (£44.3m) and a 75-unit Native Bankside aparthotel (£41m).

Bank Rate increases are expected to prompt property owners to retain assets until the economy stabilises. It is anticipated that due to increasing financial and operating costs, some owners will have to sell or consolidate their portfolios and that *'opportunistic cash buyers are circling in the hope that they may at last be able to secure distressed or underperforming assets at a discount.'*

COMMERCIAL PROPERTY CURRENTLY FOR SALE IN THE UK

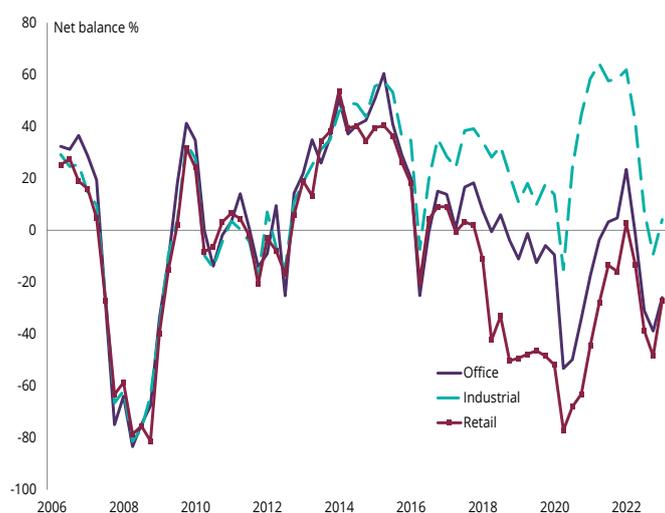
- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,156** commercial properties for sale with an average asking price of **£1,229,250**
- There are currently **1,778** commercial properties for sale in **London**, the average asking price is **£1,229,250**.

REGION	NO. PROPERTIES	AVG. ASKING PRICE
LONDON	1,778	£1,229,250
SOUTH EAST ENGLAND	1,521	£710,759
EAST MIDLANDS	837	£785,746
EAST OF ENGLAND	945	£596,883
NORTH EAST ENGLAND	840	£342,450
NORTH WEST ENGLAND	1,507	£428,094
SOUTH WEST ENGLAND	1,842	£559,016
WEST MIDLANDS	1,184	£602,239
YORKSHIRE AND THE HUMBER	1,234	£322,749
ISLE OF MAN	49	£447,945
SCOTLAND	1,156	£322,338
WALES	925	£455,762
NORTHERN IRELAND	3	£19,642

Source: Zoopla, data extracted 19 June 2023

COMMERCIAL PROPERTY OUTLOOK

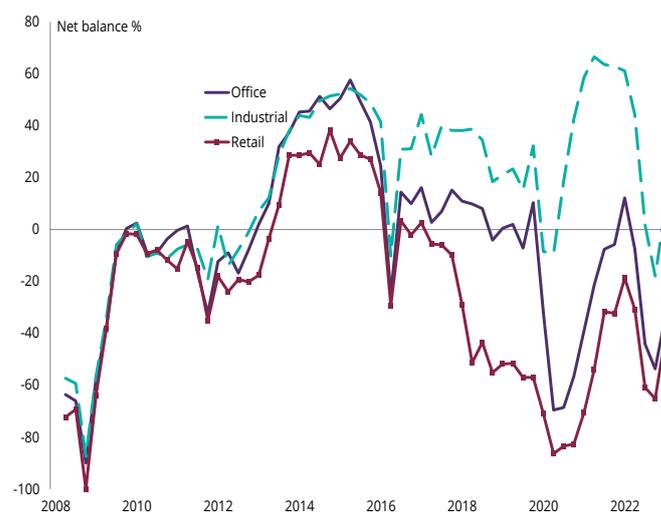
INVESTMENT ENQUIRIES – BROKEN DOWN BY SECTOR



- The headline net balance for investment enquiries was -14%, less downcast than the previous quarter's reading of -30%
- Investment demand for offices and retail assets came in at -26% and -27% respectively
- Industrial buyer demand appeared to stabilise, returning a net balance reading of +4% (compared to -9% last quarter).

Source: RICS, UK Commercial Property Market Survey, Q1 2023

CAPITAL VALUE EXPECTATIONS – BROKEN DOWN BY SECTOR



- Expectations turned from negative in Q4 2022 to slightly positive in both the prime and secondary portions of the industrial market in Q1 2023
- Across the prime office sector, values are now seen holding steady over the year ahead (net balance +6% vs -31% in Q4)
- Respondents still foresee further falls in retail values, both prime and secondary, posting net balances of -19% and -50% respectively.

All details are correct at the time of writing (21 June 2023)

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.

Approver Quilter Financial Planning Solutions Limited. 27/6/23.