AGENCY MARKET UPDATE Q4 2023:

WHERE ARE WE HEADING?

eddisons.com

Eddisons

Q4 2023

AGENCY MARKET UPDATE

We review where the commercial property market sits in the 4th quarter of 2023 and try to summarise where we see it heading for the end of the year and into the start of 2024. We provide a brief resumé from some of our English regional offices.

OUR OFFICE LOCATIONS

1 Birmingham
2 Bournemouth
3 Bradford
4 Bristol
5 Bury St Edmunds
6 Cambridge
7 East Sussex
8 Exeter
9 Fareham
10 Glasgow
11 Huddersfield
12 Huntingdon
13 Isle of Wight
14 Kettering
15 Leeds
16 Lincoln
17 Liverpool
18 London
19 Manchester
20 Newcastle
21 Northampton
22 Nottingham
23 Peterborough
24 Scunthorpe
25 Sheffield
26 Stockport

Head Office:

Eddisons, Floor 2,
10 Wellington Place,
Leeds, LS1 4AP

T: +44 (0) 113 243 0101
F: +44 (0) 113 247 1776

CENTRAL LONDON

RICHARD SPENCER

In overall terms, the Central London market remains good. This is largely a reflection of the office market - the capital is where Eddisons has the bult of its instructions.

Viewing levels are strong, offers are being received, and tenants are signing up.

The premium end of the market, within the Mayfair & St James's districts, has consistent rents with good quality space from £80.00 psf upwards, often surpassing the £100 psf level. The surrounding areas, in the West End, follow on.

The City of London market, historically dominated by the financial sector, has picked up, with a whole multitude of different businesses moving in. The discount compared to the West End could be £20-£30 psf.

Other locations including mid-town, an evolving district including Holborn, Bloomsbury, Farringdon, St Giles & Clerkenwell, and the South Bank remain steady. The full opening of the Elizabeth Line means that tenants are willing to be far more mobile in location.

We're finding the established companies more dominant in the market for space with smaller, more fledgling companies more exposed. On the freehold sales side, prices have been holding up among owner occupiers rather than investors who are now bound to be more cautious.

REGIONAL VIEWS

STEPHEN HAWKINS

Turning to the regions it is fair to say that the office market is more delicate with some space remaining vacant post lockdowns and a general slow recovery of the workplace environment. It would seem that most locations are witnessing a flexible working approach with homeworking still popular for many.

Our regional agency business is geared more to the industrial and warehouse markets and this sector has been the star performer for the last three years.

There are signs that the freehold occupier market is slowing by virtue of rising interest rates. The slowdown has not been as dramatic as feared, simply because of the overall shortage of freehold supply and intense demand.

The freehold investment market however has slowed especially where investment vehicles have gearing, and many have had to look closely at loan to value percentages with recent valuations showing a marked shift in yield expectations. Where prime yields have arguably moved from around 3.5-3.75% to somewhere approaching 4.75-5%, this obviously can have a fairly dramatic effect on capital values. The markets may now start to be factoring in the top of the interest rate cycle, but we don't see yield shift in a positive direction coming through well into 2024.

ST. MODWEN PARK, LINCOLN

MIDLANDS & EASTERN

GAVIN HYNES, STEPHEN POWER & TIM BRADFORD

The Midlands and Eastern Region is again dominated by the industrial and distribution markets for Eddisons. It is fair to say that this market remains particularly strong and considerably better than the office and retail sectors. In both regions the freehold occupier market is, understandably, quieter but prices are holding up for now.

It's noticeable that buyers are making offers below asking rather than just simply offering the asking price. Most vendors, at the same time, are accepting that it is a softening market and are being realistic.

The lettings market is patchy and much hinges on location. The increase in rateable value has had some bearing on the smaller end of the market, so we anticipate a tougher end to the year.

From our Huntingdon office, the view is the market is a little quieter following a flurry of activity at the start of the year. We are probably seeing an adjustment to more typical market conditions after several years of sustained high demand for industrial units where demand regularly outstripped supply.

There still remains demand, particularly for new builds, although there is less pressure on space, generally.

With the leasehold market, we are not seeing this result in a reduction of headline rents, but tenant incentives are now being offered in some areas of the market. This seems unlikely to change for the remainder of 2023 through into the early part of 2024.

The demand for office space generally remains subdued while occupiers adjust to flexible working options as the 'new normal'. This has led to downward pressure on rents and a drive to improve the quality of existing stock.

There seems little evidence that uptake is likely to increase in the short term so little incentive for the development of new buildings, leading to investment in older stock where appropriate. Landlords for older stock need to refurbish and make space presentable as competition between landlords intensifies and so it is imperative that the space is offered in its best light.

Again, this seems unlikely to improve ahead of next year.

Looking to the northern parts of our Midlands & Eastern regions, where our recently acquired Banks Long & Co operation in Lincoln sits, Q2 2023 showed an improvement - both in enquiry levels and take-up rates – contrasting with a notably subdued Q1.

However, here we are perhaps starting to see a realisation on the part of sellers that they need to be more realistic in their pricing. This has led to more activity in the freehold market when compared to the Q4 2022 and Q1 2023.

With this increased activity, we are starting to see pressure on the supply of new stock, which is not helped by the lag in the delivery of new developments. As such, we are looking at ways of replacing stock but the product needs to be good quality to appeal.

Timings for completing transactions have stretched out, especially when linked to planning permissions and the issue with the performance of solicitors across all sectors continues to drive agents to distraction. This may seem harsh on our legal peers, longer than expected timeframes being experienced by many agents could be critical for some sellers and landlords during any slight downturn of the market in increasing the risk of price chipping or, worse, default.

It would seem that Summer 2023 was an extended holiday period for the market insofar as many people were away and little happened during the summer months. There are signs of an increase in enquiries just after the summer break, but we expect the remainder of 2023 to be more difficult.

YORKSHIRE

ADRIAN LUNN

Further north, our Sheffield office shares a similar view to our colleagues further south as far as the industrial market is concerned.

Yet the market is, perhaps, stronger as supply levels - especially for new build properties - tend to be tighter, with the owner occupier and investment markets remaining very strong for properties up to £2 million in value.

Freehold opportunities on the open market are limited. When they become available there are numerous interested parties wanting to purchase.

In terms of the office market, suburban locations remain desirable whereas city centre units have continued to decrease in popularity since the pandemic. This being said, annual office take-up should remain the same as the previous year, with smaller 'coworking suites' maintaining their demand, reflecting the national trend.

Similarly, the retail sector has seen a modest increase in demand for suburban parades of small units. The subsequent rent rises could be a short-term trend, but it does match the lack of uptake in urban and shopping centre units, which have never recovered since the 2008 recession.

In terms of the office market, suburban and accessible locations remain desirable whether for sale or to let at purchase prices or rents consistent with the pre-pandemic market.

However, town and City Centre locations are less desirable for reasons much discussed in the post pandemic world with rental levels suffering. That said annual office take up should be the same as the previous year, and with no over supply of grade A space rentals are holding / growing slightly. Secondary grade space may struggle, which is a general reflection of the office market across the country and there is good demand for smaller "co working suites" on monthly all in deals, which again reflects the national trend.

Of note in the retail sector are suburban parades of small units. These have seen modest rent rises for newly let units not seen since the credit crunch in 2008. Albeit, this could be in the short to medium term but, perhaps, longer because shopping centre and urban retail centre uptake and rental levels may take many years to recover to their pre-credit crunch levels

For example, Sheffield city centre still hasn't reinvented itself properly and although the City Council has done a good regeneration job, rentals in some areas have fallen by at least half, if not more.

NORTH WEST

ROBERT DIGGLE

Over in the north west, our Liverpool office largely mirrors the comments of Sheffield in respect of the industrial sector although has indicated that enquiry levels have fallen for the sub-20,000 sq ft sector.

Further, as with other English regional offices, we are receiving normal enquiry levels for development sites but with the increase in build costs and rising costs of development funding, there is a view that prices are likely to fall.

The out-of-town office market has been generally quiet for a few years, but things are beginning to move. The importance of concluding transactions swiftly when deals are agreed cannot be overstated. The downside risk in having to re-market is too great with enquiry levels slim.

In referencing the residential sector, we observe that, given the hike in mortgage rates, there is a bit of uncertainty. Bidders taking variables into account will widen the gap between vendors' aspiration and purchasers' aspiration in the offers they submit. Something which is, perhaps, now in play across many parts of the country.

So what do we conclude? None of this will surprise those who are involved in the property market on a daily basis.

The industrial & logistics sector remains the most buoyant part of our agency business but with signs of freeholds weakening - no surprise in the context of interest rates.

The investment market has slowed and prices dropping reflect the debt cost on yield. But occupational pricing has remained resilient with good demand and lack of supply.

We feel the investment market, led by the industrial sector, will improve in the short term.

The office market in the regions remains tricky but a shift to higher quality Grade A space sees those employers in the best position to retain & recruit staff.

As for retail? Best advice is grab an occupier when you can.

Undoubtedly, the remaining part of the calendar year will be tougher. But as the saying goes, when the going gets tough....

eddisons.com

Eddisons

EDD0089/09.23