

# INVESTMENT MARKET UPDATE

Q4 2022



# What does the past tell us?

# Market “snapshot” Q4 2022

Year		Office		Industrial	Retail Warehouse	Retail		Inflation Rate	UK Bank Base Rate Yields (Average)*
		Prime Regional	South East	Prime	Prime Retail Warehouse	Prime Shops	Secondary Shops	Source: Bank of England	Source: Bank of England
1980	Mount St. Helens volcano erupts	5.00%	5.25%	7.25%	10.00%	4.00%	9.00%	17.97%	16.33%
1981	<b>Recession</b> - IBM launches the PC	5.00%	5.50%	7.25%	10.00%	3.75%	9.00%	11.88%	13.29%
1982	<b>Recession</b> Falklands War	5.00%	5.50%	7.75%	9.00%	3.75%	9.00%	8.60%	11.92%
1983	<b>Recession</b> - US invade Grenada	5.00%	5.50%	7.75%	8.00%	3.75%	8.00%	4.61%	9.79%
1984	Coal miner's strike	5.00%	5.50%	7.50%	8.00%	3.75%	8.00%	4.96%	9.69%
1985	Live Aid rock concert	5.00%	5.50%	7.50%	7.50%	3.75%	7.00%	6.07%	12.25%
1986	Chernobyl reactor disaster	6.50%	6.00%	8.50%	7.50%	4.00%	7.00%	3.43%	10.92%
1987	World Stock Market Crash + The Great Storm	6.00%	6.50%	8.00%	7.00%	4.25%	7.00%	4.15%	9.75%
1988	George Bush Snr wins Presidency	6.00%	6.50%	7.50%	7.00%	4.50%	7.00%	4.16%	10.06%
1989	World Wide Web created	6.00%	6.50%	8.00%	6.75%	5.00%	8.00%	5.76%	13.83%
1990	<b>Recession</b> - Iraq invades Kuwait	8.00%	8.50%	9.50%	7.00%	5.75%	10.00%	8.60%	14.84%
1991	<b>Recession</b> - Gorbachev resigns as last USSR President	8.50%	9.00%	8.75%	9.50%	5.00%	9.00%	7.46%	11.68%
1992	<b>Recession</b> - Clinton elected as President	8.50%	9.00%	8.94%	9.00%	5.13%	9.25%	4.59%	9.56%
1993	Single European Market begins	8.00%	8.50%	8.25%	7.81%	5.00%	8.19%	2.56%	5.88%
1994	Nelson Mandela becomes president of South Africa	6.50%	7.50%	6.56%	6.38%	4.25%	7.50%	2.22%	5.63%
1995	Barings Bank collapses	6.25%	7.00%	7.13%	6.50%	4.94%	8.50%	2.70%	6.69%
1996	President Clinton re-elected	6.00%	7.00%	7.25%	6.31%	4.50%	8.50%	2.85%	5.88%
1997	Beginning of Asian economic crisis	6.50%	7.25%	7.00%	5.88%	4.00%	8.25%	2.20%	6.25%
1998	Russian Crisis	6.25%	7.00%	7.00%	5.75%	4.50%	8.00%	1.82%	6.25%
1999	First balloon flight around the world	6.25%	7.25%	6.25%	5.50%	4.50%	7.75%	1.75%	5.50%
2000	DNA sequencing of the human genome	6.25%	7.75%	6.50%	5.75%	5.25%	7.60%	1.18%	6.00%
2001	9/11	6.50%	7.50%	6.75%	5.75%	5.75%	7.50%	1.53%	4.00%
2002	Euro becomes legal tender	6.75%	7.25%	6.75%	6.00%	5.25%	7.00%	1.52%	4.60%
2003	England Wins Rugby World Cup	6.50%	7.25%	6.25%	5.00%	4.75%	5.75%	1.38%	3.69%
2004	Facebook was launched	6.25%	7.00%	6.00%	4.75%	4.50%	5.50%	1.39%	4.50%
2005	Hurricane Katrina	5.50%	6.50%	5.75%	4.50%	4.25%	5.50%	2.09%	4.65%
2006	Saddam Hussein is executed	4.50%	5.75%	5.25%	4.25%	4.50%	5.25%	2.46%	4.65%
2007	The iPhone	4.75%	5.50%	5.50%	4.75%	4.25%	5.50%	2.39%	5.52%
2008	<b>Recession</b> - Financial Crisis	6.00%	7.00%	7.25%	6.25%	5.50%	6.75%	3.52%	1.00%
2009	Barrack Obama is elected 44th President of the USA	7.00%	7.50%	8.75%	7.75%	6.00%	7.50%	1.96%	0.50%
2010	Sachin Tendulkar first international ODI double century	6.25%	7.00%	7.50%	6.25%	5.25%	7.25%	2.49%	0.50%
2011	Osama Bin Laden killed by US special forces	6.00%	6.50%	7.50%	6.25%	5.25%	7.25%	3.86%	0.50%
2012	London Olympics	5.50%	5.75%	6.25%	5.25%	4.50%	7.00%	2.57%	0.50%
2013	Andy Murray wins Wimbledon	5.25%	5.75%	5.75%	5.15%	4.75%	6.50%	2.29%	0.50%
2014	Russia Annexes Crimea	5.00%	5.25%	4.75%	5.35%	4.50%	6.75%	1.45%	0.50%
2015	NASA finds water on Mars	5.00%	5.00%	4.75%	4.50%	4.50%	6.00%	0.37%	0.50%
2016	<b>Recession</b> - EU referendum	5.00%	5.00%	4.35%	4.25%	4.25%	6.00%	1.01%	0.50%
2017	Donald Trump inaugurated	5.25%	5.25%	4.25%	4.25%	4.00%	5.75%	2.56%	0.25%
2018	Prince Harry and Meghan marry	4.75%	5.00%	4.00%	4.50%	4.25%	6.00%	2.90%	0.50%
2019	Notre Dam Cathedral fire	4.75%	4.75%	4.00%	6.00%	5.50%	6.00%	1.74%	0.75%
2020	<b>Recession</b> - Covid-19 Pandemic	5.00%	5.25%	4.00%	7.00%	5.00%	6.75%	0.99%	0.10%
2021	NASA Rover lands on Mars	5.00%	5.25%	4.00%	6.00%	6.25%	7.00%	2.52%	0.10%
2022 - Q1	Russia invades Ukraine	5.00%	5.25%	4.00%	5.00%	6.25%	7.00%	2.52%	0.10%
2022 - Q2	Boris Johnson Partygate	5.00%	5.25%	4.00%	4.25%	6.25%	7.00%	2.52%	0.10%
2022 - Q3	Boris resigns - Liz Truss becomes PM	5.75%	6.00%	4.75%	5.25%	6.50%	8.50%	9.50%	2.25%
2022 - Q4	Rishi Sunak becomes PM	7.00%	7.25%	5.25%	6.00%	6.75%	9.00%	10.10%	3.00% rising



## OFFICE

	Q4 2022	
West End Offices	3.75%	▼
City Offices	4.25%	▼
Prime South East Offices	7.25%	▼
Prime Regional Offices	7.00%	▼

“ • Very best in class office space and sustainability will be the two most crucial components for those who are looking to take up office space in the big six cities.  
• Rising refurbishment costs and continued working from home practices are the biggest challenges for the sector. ”

Dale Johnstone



## INDUSTRIAL

	Q4 2022	
Prime Industrial/Distribution	5.25%	▼
Prime London Industrial	4.25%	▼
Prime Multi Let Industrial	5.25%	▼

“ • Significant yield softening within a 4-6 week window during the summer in reaction to rising debt rates. Occupational market remains strong with a 2.5% void rate throughout UK.  
• Continued rental growth expected with average UK rents rising last month by 0.4%. ”

Richard Gale



## RETAIL WAREHOUSE

	Q4 2022	
Prime Retail Warehousing	6.00%	▼
Prime Solus Retail Warehousing	6.00%	▼
Secondary Retail Warehousing	8.00%	▼

“ • The yield compression experienced late 2021/early 2022 has been quickly eroded. Retail warehouse occupiers selling “big ticket” items such as furniture, electricals, soft and hard furnishings likely to suffer most with a reduction in sales.  
• Yields softened quickly in reaction to rising debt rates.  
• Discount food and value retail more resilient to a contraction in consumer spend. ”

Archie Stead



## HIGH STREET

	Q4 2022	
Prime High Street Retail	6.75%	▼
Secondary High Street Retail	9.00%	▼

“ • The “squeeze on real disposable income” will negatively impact the High Street albeit less so for low cost items.  
• Discount clothes, homeware and food will fair better with luxury middle income retailers likely to suffer the greatest.  
• The sector has sustained weak tenant demand for a long period as a consequence of e-commerce growth and the pandemic, allowing tenants to negotiate more favourable lease terms.  
• Business rates likely to fall from the 1st April which will reduce occupiers fixed costs. ”

Gergo Petrovics



## FOODSTORE

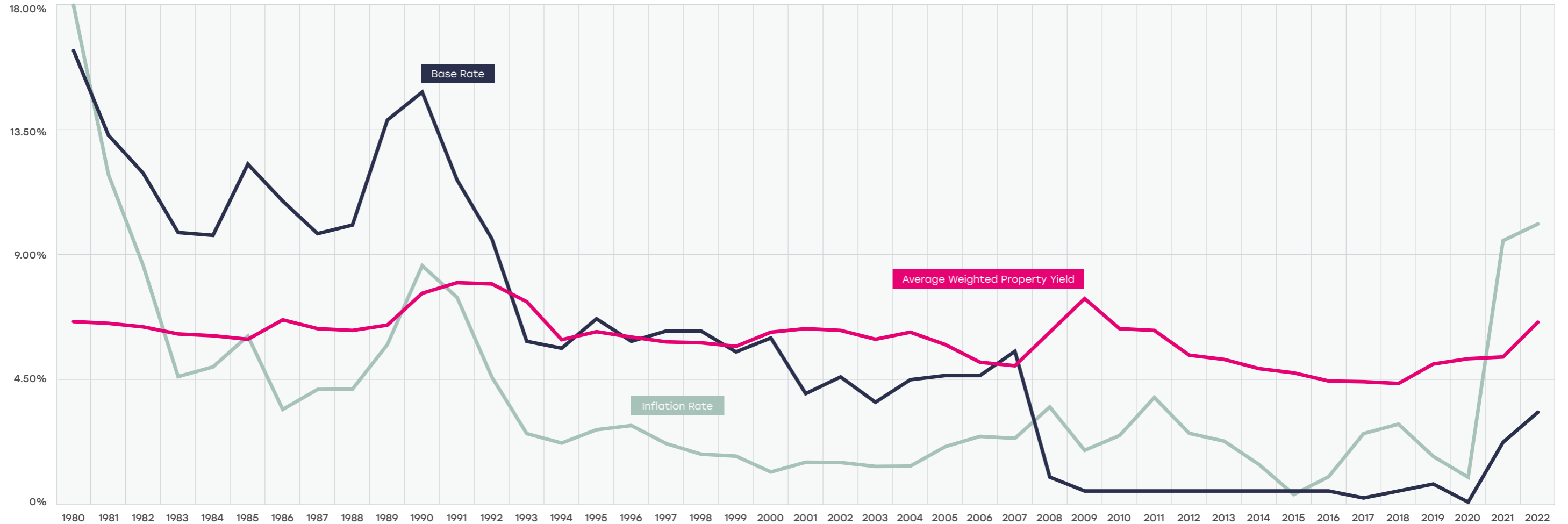
	H2 2022	
Foodstores	5.25%	▼

“ • Despite the economic headwinds demand remains robust for foodstores, with investors attracted by the stable long-term income often with index linked reviews.  
• During the national lockdowns foodstores demonstrated their resilience and cemented themselves as an important element of the UK infrastructure. There has, however, been a downward adjustment in pricing reflecting the current debt market and market sentiment. ”

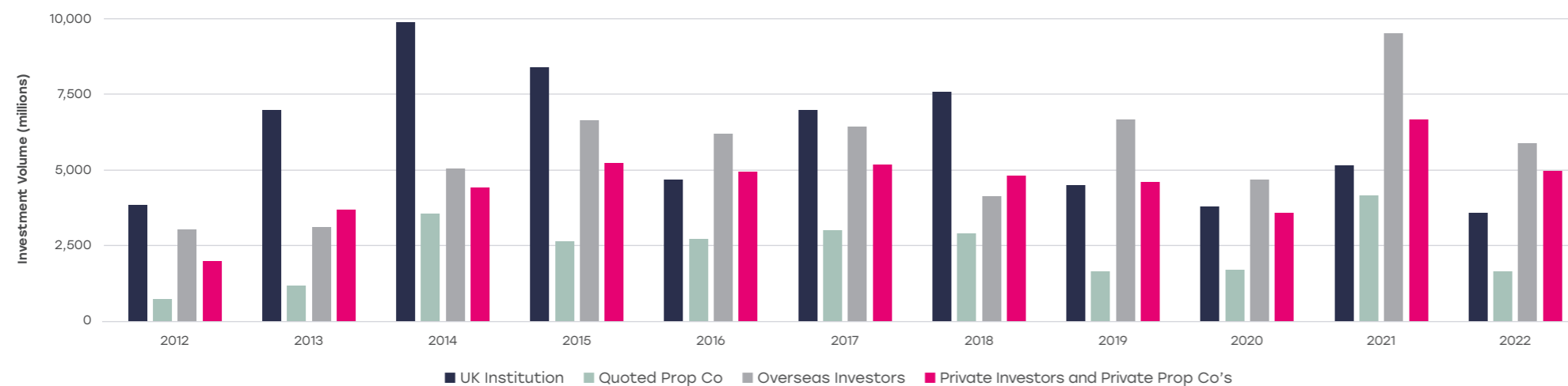
Liam Stray

# National

## 40 YEARS - BASE RATE, INFLATION RATE VS PROPERTY YIELDS



## INVESTMENT VOLUME BY INVESTOR TYPE



“ Commercial property transaction volumes in H1 2022 were the strongest start to the year since 2015. More recently, however post summer transactions have fallen by 48% in Q3. ”

Andrew Wise

# OFFICE Market Overview



Q3 office volumes are **63% below trend at £276m** (excluding London)



**Low Vacancy rates** with Grade A supply averaging just **2.8%** across the 'Big 6' cities



**ESG** remains the **key focus** for both investors and occupiers driving demand for quality, sustainable accommodation



25 bps prime yield compression through 2021 followed by a **softening of yields by 75-100bps since June 2022**



**Rental growth** in prime regional centres for **best in class** accommodation with strong ESG credentials



**Overseas Investment** driving demand accounting for **62% of 2022 transactions so far** (excluding London)



Strong **employment growth** in **TMT sectors**, leading the way in occupational office demand



Secondary regional offices remain at a **significant discount to prime**, creating **attractive opportunities** for investors chasing higher yielding assets



## Latest Deals

ACQUIRED



No.1 Forbury Place, Reading

£100M / 5.64% NIY

SOLD



St Philips Point, Birmingham

£24.5M / 8.80% NIY

SOLD



Citygate II, Newcastle Upon Tyne

£19.37M / 7.70% NIY

SOLD



145 Morrison Street, Edinburgh

£12.06M / 5.75% NIY

SOLD



Project Port, Portfolio

£22M

SOLD



Widewater Place, Uxbridge

£33M

# INDUSTRIAL Market Overview



Investment volumes in **Q3 totalled £3.3bn**, stable QoQ



Multi-let accounted for **31%** of sales volumes with distribution at **42%**



Investment from **private equity** was notably down in Q3 to 23% of volume from 54% in Q2. Overseas investors benefitted from favourable exchange rates increasing from **25% to 34%**



Total vacancy on logistics continued to remain low, **falling from 3.9% in Q2 to 3.7% in Q3**



**Rental growth has slowed** throughout Q3 with **0.4% growth**, the lowest since Q2 2020



**Rental growth outlook is still positive** with limited delivery of speculative schemes due to high development costs



The drop in competitive tension has reduced the buyer pool resulting in **yield softening by up to 100 bps**



Such a **sharp correction in pricing** reflects the increased economic uncertainty and the sectors exposure to **rising debt costs**



## Latest Deals



Wye Estate, High Wycombe

c.£20M / c.3.5% NIY



Castle Park, Nottingham

c.£20M / c.4% NIY



Formal Industrial Park, Tewkesbury

£20.6M / 6.1% NIY



Proximity, Eastleigh

c.£20M / c.4.5% NIY



Imperial Studios, Fulham

£19.1M / 2.50% NIY



120 Oyster Lane, Byfleet

£7.6M / 3.4% NIY

# RETAIL WAREHOUSING Market Overview

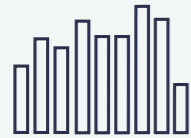
## Latest Deals



Transaction turnover has cooled in H2 with **£285m turnover** in Q3 so far, down from the £1.3bn seen in Q1



Oct-22 saw Tonbridge Retail Park trade for **£22m / 5.25% NIY**



Continued increase in **F&B and Leisure** uses is driving footfall and dwell time on schemes



**H2-2022** has seen sentiment and **pricing soften** due to increasing cost of debt and quantity of available stock in the market compared to H1



**H1 was dominated by UK & US institutions.** H2 is seeing more opportunistic buyers return to the market



Vacancy rates have continued to decrease **to 5.0%** (on a sq ft basis)



Bigger ticket household items such as **carpets, furniture & white goods** have recently performed well but we expect this to taper off with the squeeze on real disposable income



Covenant strength remains strong in the sector with **food, value, convenience & DIY** continuing to maintain strong performers



Waddon Retail Park, Croydon **£13M / 4.25% NIY**



Marina Quay, Rhyl **£17.7M / 6.00% NIY**



Saffron Walden **£19.325M / 4.55% NIY**



St John's Retail Park, Taunton **£6M / 8.00% NIY**



Blackpool JD & Smyths **£4.1M / 7.00% NIY**



Botley Road, Oxford **£16.33M / 4.00% NIY**

# RETAIL Market Overview



Increased pool of buyers due to re-based pricing - opportunities made **attractive for developers**



**Private Investors and Property Companies** are dominating the market, accounting for **63% of transactional volume**



Squeeze on consumer spend **expected to see people opting to visit the High Street**, as opposed to online shopping – though both expected to drop in levels



Average number of **supermarket purchases** per person **increased by 37%** from June 2021 to July 2022



Occupancy has improved although void rate for the UK **remains at 19%**



**Prime shop yields currently 6.75%**



High percentage of stock from **institutional** sellers



**Rent collection improved by 8.6% in H1 2022**



## Latest Deals



**SOLD**  
Lockey House, St Albans **£6.25M / 6.90% NIY**



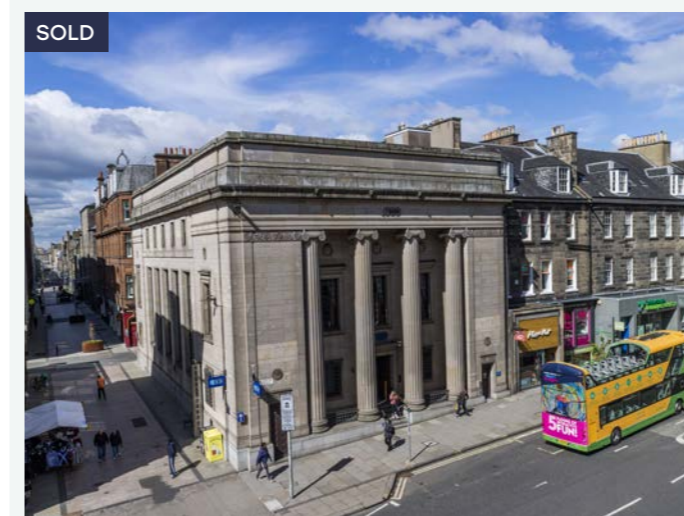
**ACQUIRED**  
The Harpenden Estate, Harpenden **£14.5M / 7.40% NIY**



**SOLD**  
651-653b Wilmslow Road, Manchester **£6.025M / 6.58% NIY**



**SOLD**  
Project Winding Lake Pub Portfolio **£100M / 5.75% NIY**



**SOLD**  
28-30 Hanover Street, Edinburgh **£3.615M / 7.53% NIY**



**ACQUIRED**  
50-60 Broad Street, 109-119 Friar Street & 4-6 Union Street, Reading **£21M / 9.61% NIY**

# MIXED-USE Market Overview



**Flat prices increased over the year in England to £247,652** an increase of 7% in April 2022 on the same time last year



**Across the UK, there is a considerable affordable housing deficit with over 1 million households on the register for social housing** who have been pushed into the private rented sector



**Average room rents across the UK have risen to £606 pcm (£7,272 per annum),** an increase of 6% on the same period last year



**83% of UK department store space have closed since BHS collapsed in 2016.** While 388 department stores have closed, 237 still stand vacant.



**Conversion costs have risen significantly over the past year with the rising cost of key materials and labour.** On average building costs have risen from around £100 per sq ft in 2021 to £140 psf in 2022



**Over the past year there has been a number of major changes to permitted development rights.** For example, Class O' to convert an office of unlimited size to residential terminated on 31st July 2021



**Permitted development will now fall under the new 'class MA'** which has a maximum limit of 1,500 sq m (16,146 sq ft) per building and does not apply to listed buildings



**Use Class MA** now enables change of use of a building within Class E (commercial, business and service) of Schedule 2 to the Use Classes Order to a use falling within Class C3 (dwellinghouses).



## Latest Deals

SOLD



Joynes House, Gravesend

£5.15M / £115 psf

UNDER OFFER



Elm Park, Hornchurch

c.£12M / c.£250 psf

SOLD



Central House, Southend-On-Sea

£6.75M / £107 psf

SOLD



Former Debenhams, Staines

£13M / £115 psf

SOLD



Crown Square, Woking

£9M / £146 psf

SOLD



Former Debenhams, Plymouth

£3.7M / £23 psf



# Allsop National Investment Team The Last 12 Months

Over  
**60**  
transactions

Over  
**£900M**  
of transactions

Over  
**ONE**  
deal per week

All  
**SECTORS**  
covered Across the UK

Unrivalled access to  
**50,000**  
investors

Investor reach to over  
**208**  
countries or territories

**We know the buyers**

# Allsop National Investment Team

# We know the buyers



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For market intelligence and advice on buying and selling commercial investments, get in touch.

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