

# UK Commercial Property – Metrics & Momentum

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Professional Conferences  
Royal Armouries, Leeds  
18 March 2025

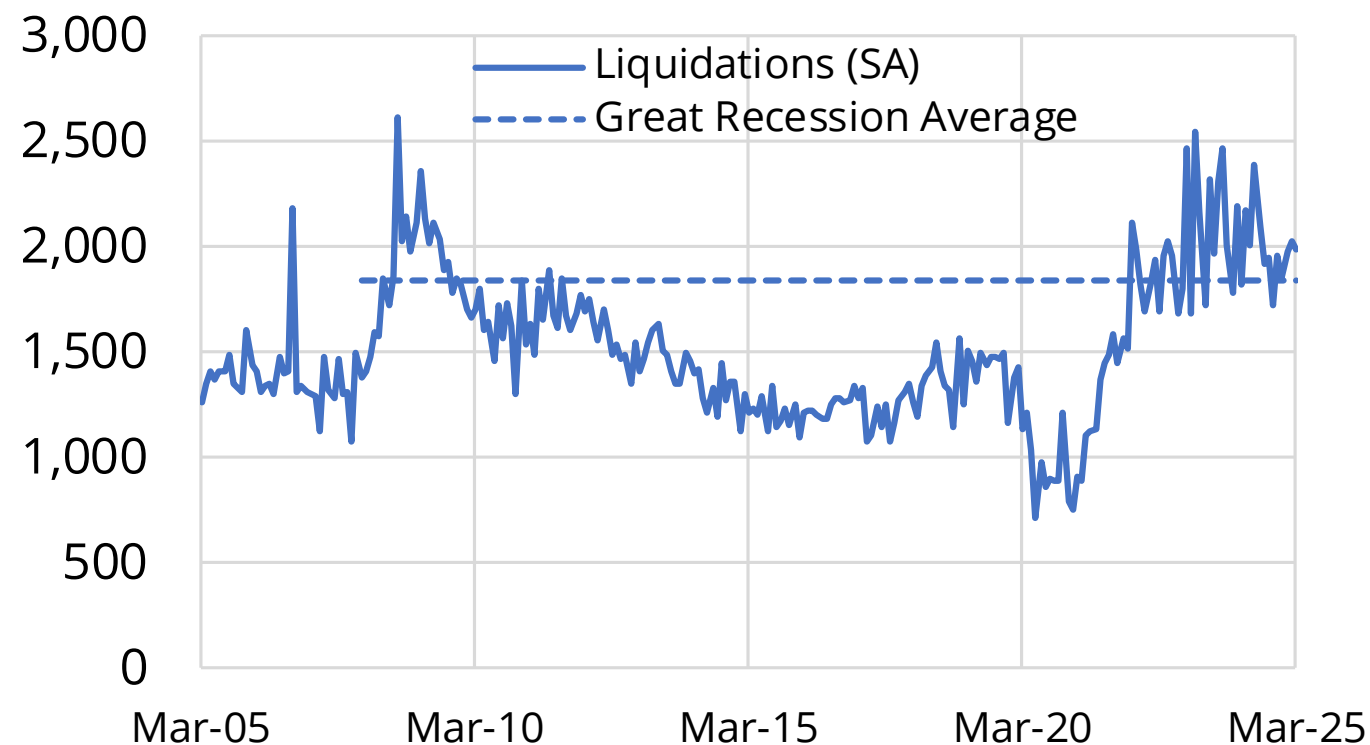
# Failures at Global Financial Crisis level

## Company insolvencies

Creative destruction?

Cyclical renewal or  
administrative neglect?

### Company Liquidations (SA)



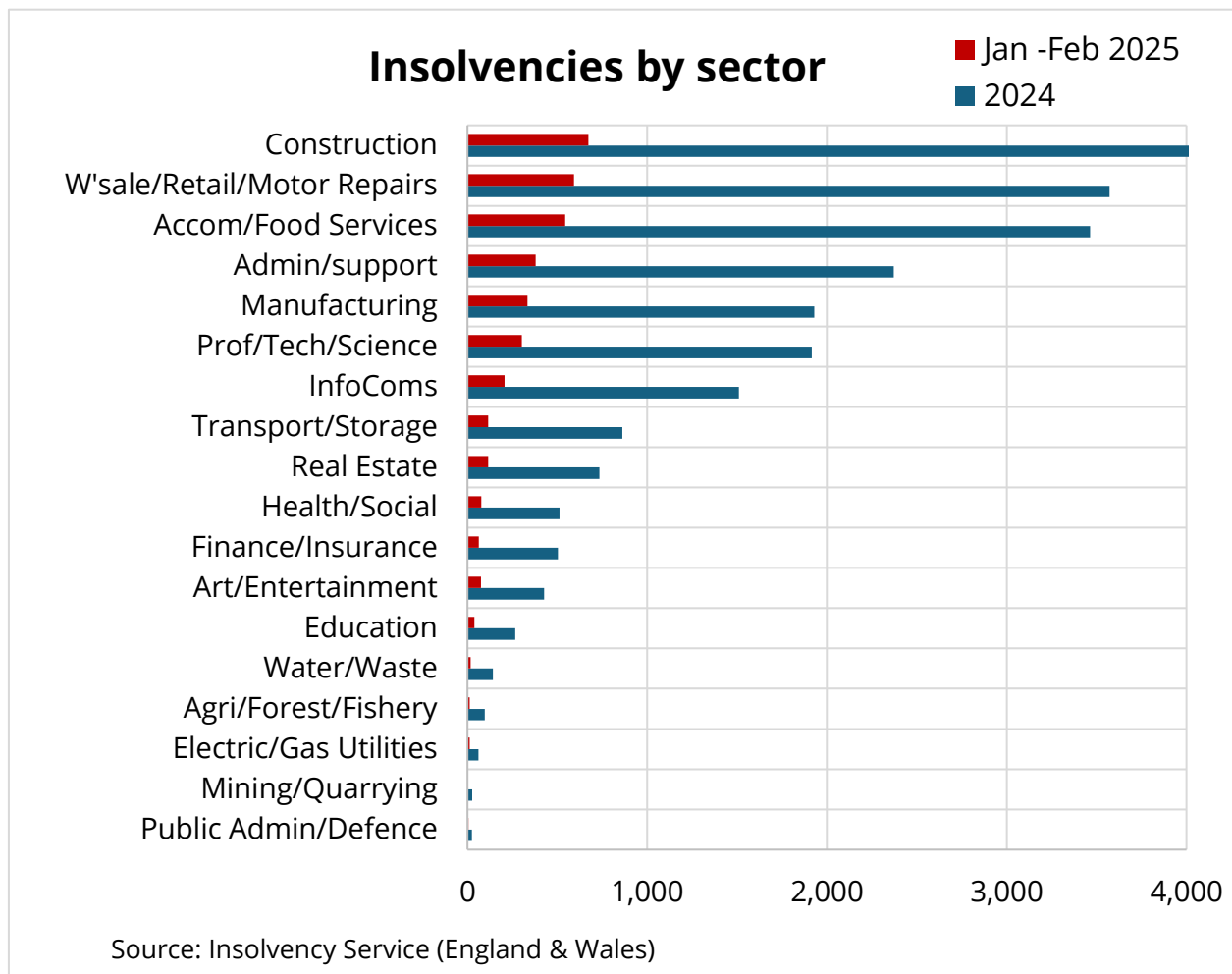
Source: The Insolvency Service (March 2025)

# Failures at Global Financial Crisis level

## Insolvencies

Creative destruction?

Cyclical renewal or fiscal policy  
malpractice?





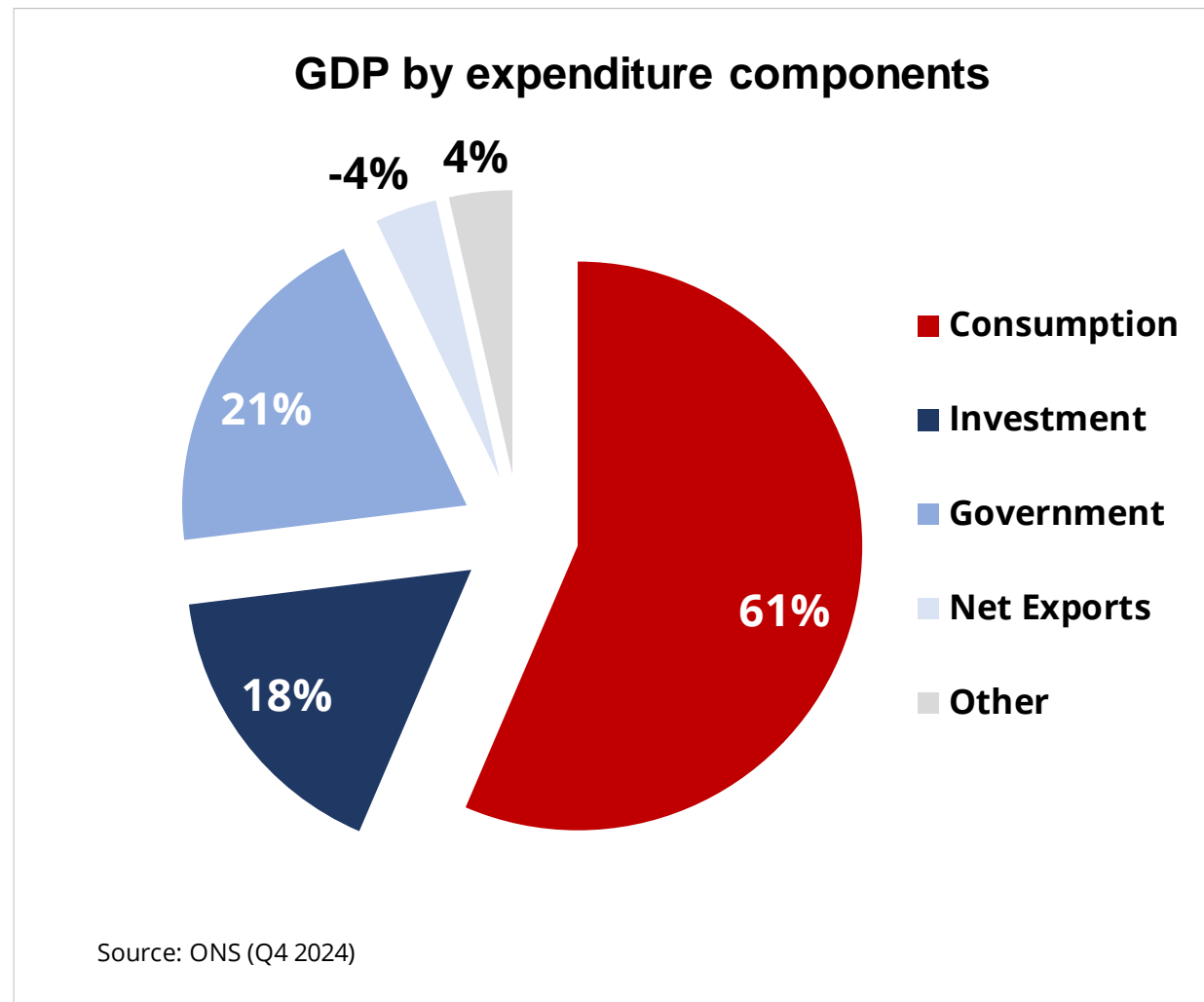
# Agenda

- 1 A few economic considerations
- 2 Retail sector performance
- 3 Industrial sector performance
- 4 Office sector performance
- 5 Q&A

# $GDP = C + I + G + (Net\ Exports)$

## GDP components

- **Consumption** - key driver of GDP growth
  - Disposable income squeezed
  - Household costs (energy, rent)
  - Mortgage & debt costs
  - Savings rate (11.1%)
- **Investment** – business uncertainty
  - Working capital eroded by taxes
- **Government** – consumption & investment
  - borrowing to spend is not sustainable
  - fiscal headroom
  - debt interest / revenue ratio 8.3%
- **Net exports** – Goods exports minus imports
  - UK exports to EU (48%)
  - UK exports to US (15%)

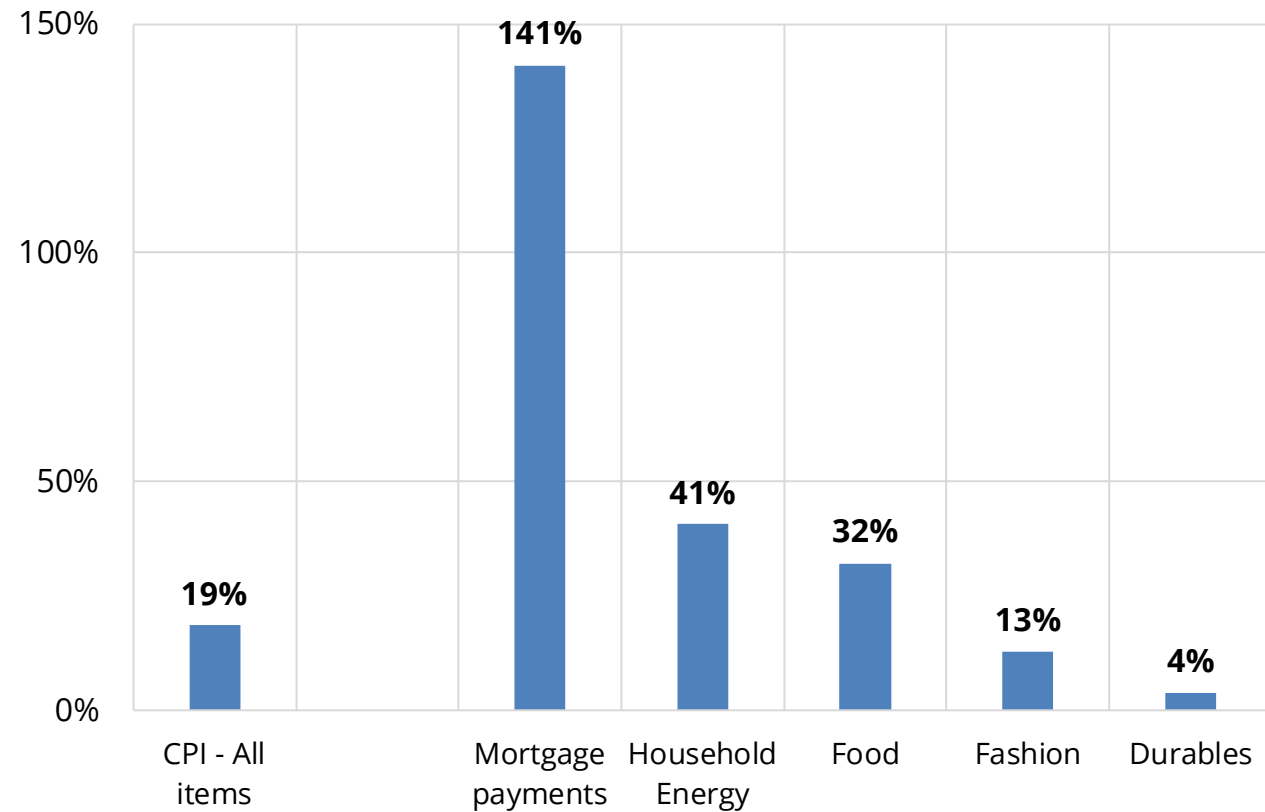


# Down but not out!

## Inflation



**Price increase pre- and post- inflationary spike**



Source: ONS, CPI & RPI. January 2022 & March 25 compared.

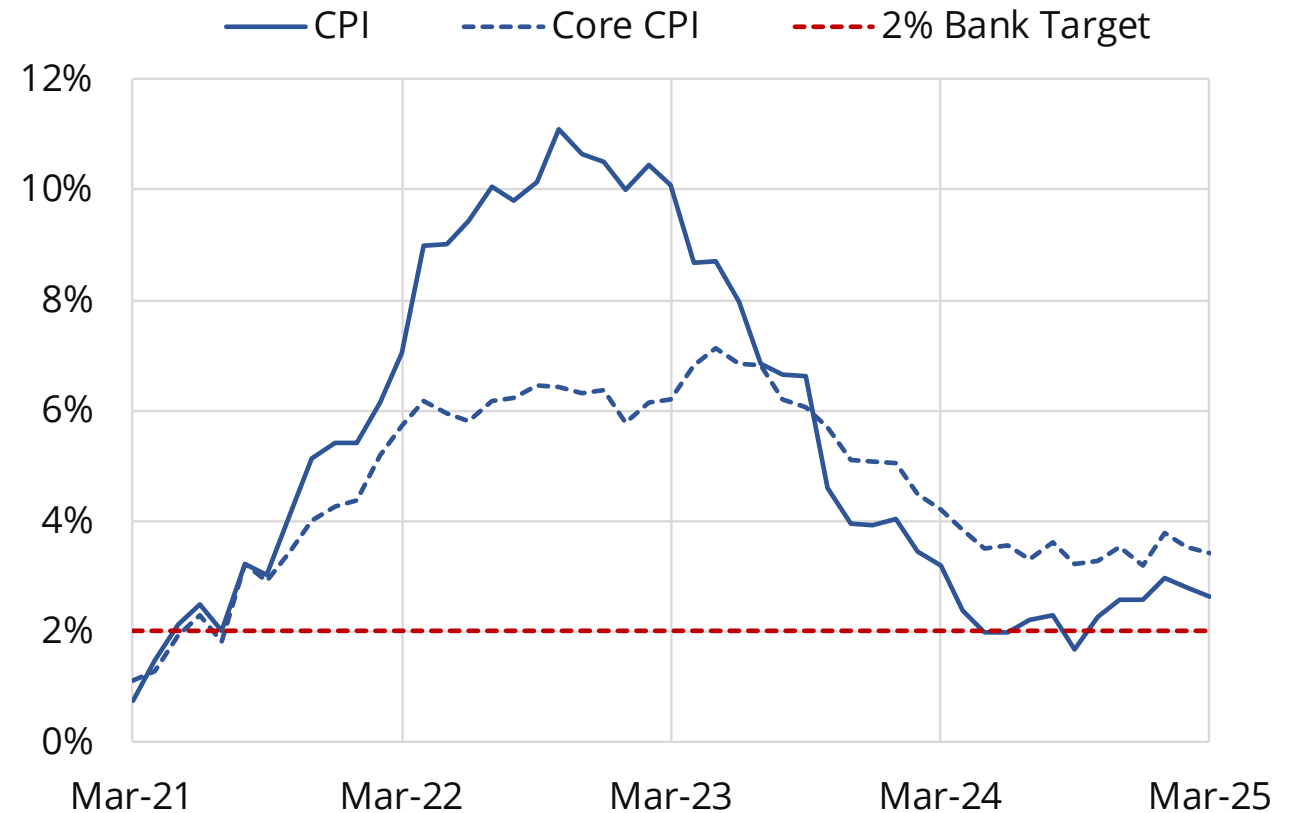


# Down but not out! Inflation



Colliers confidential

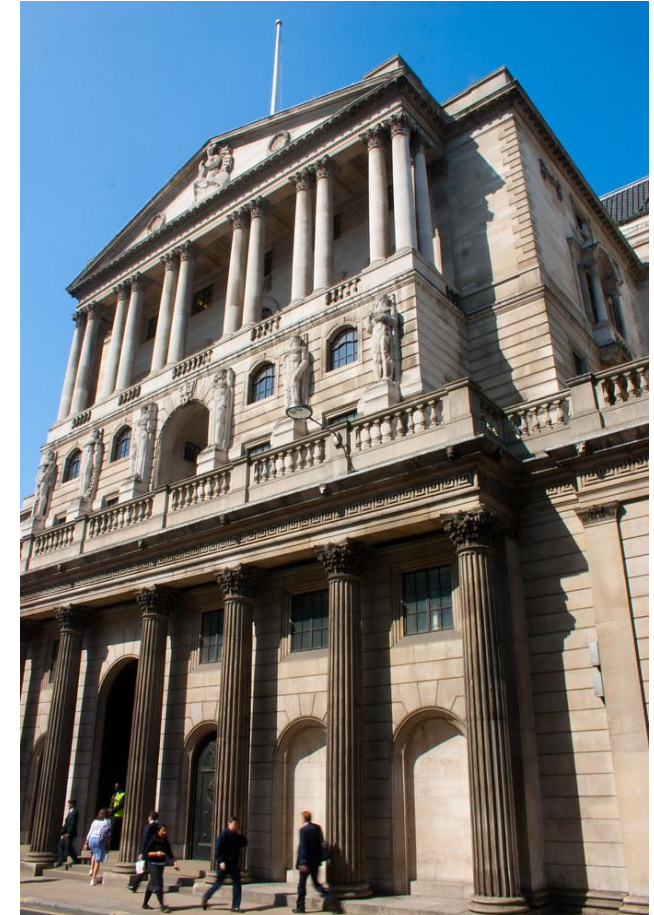
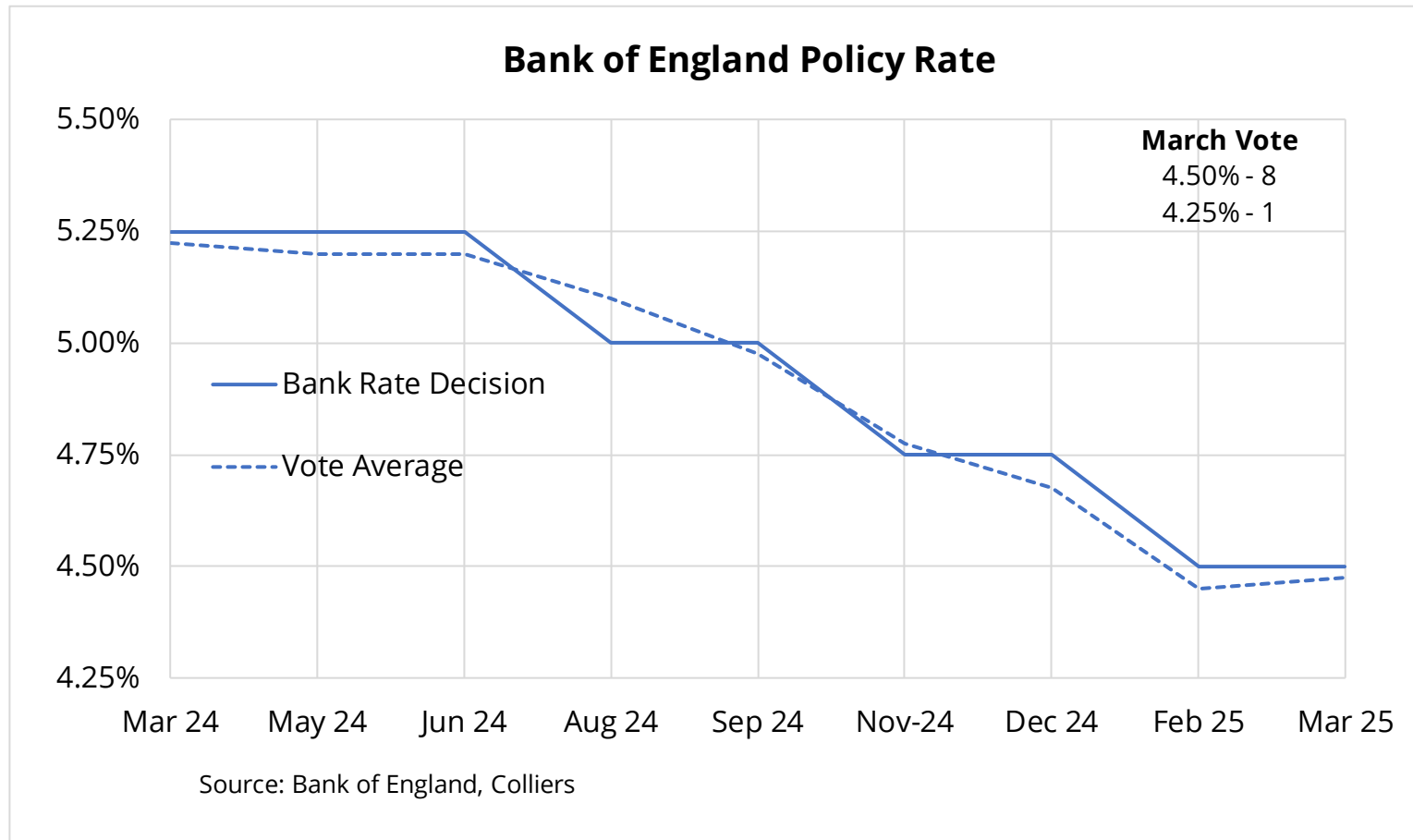
## Headline CPI, Core CPI & RPI



Source: Office of National Statistics

# Monetary policy accommodating fiscal tightening

## Interest rates



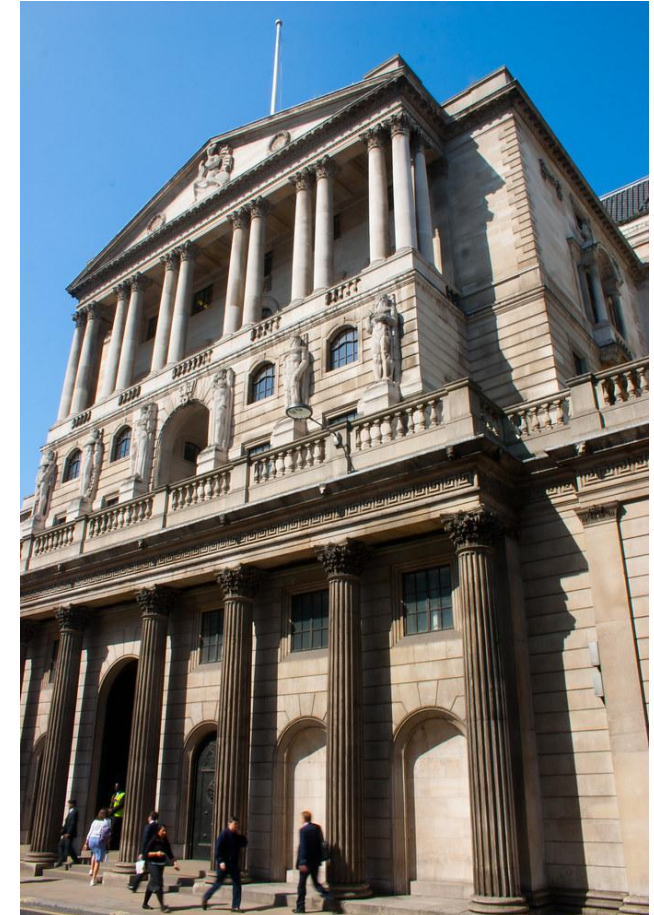


# Monetary policy accommodating fiscal tightening

## Interest rates

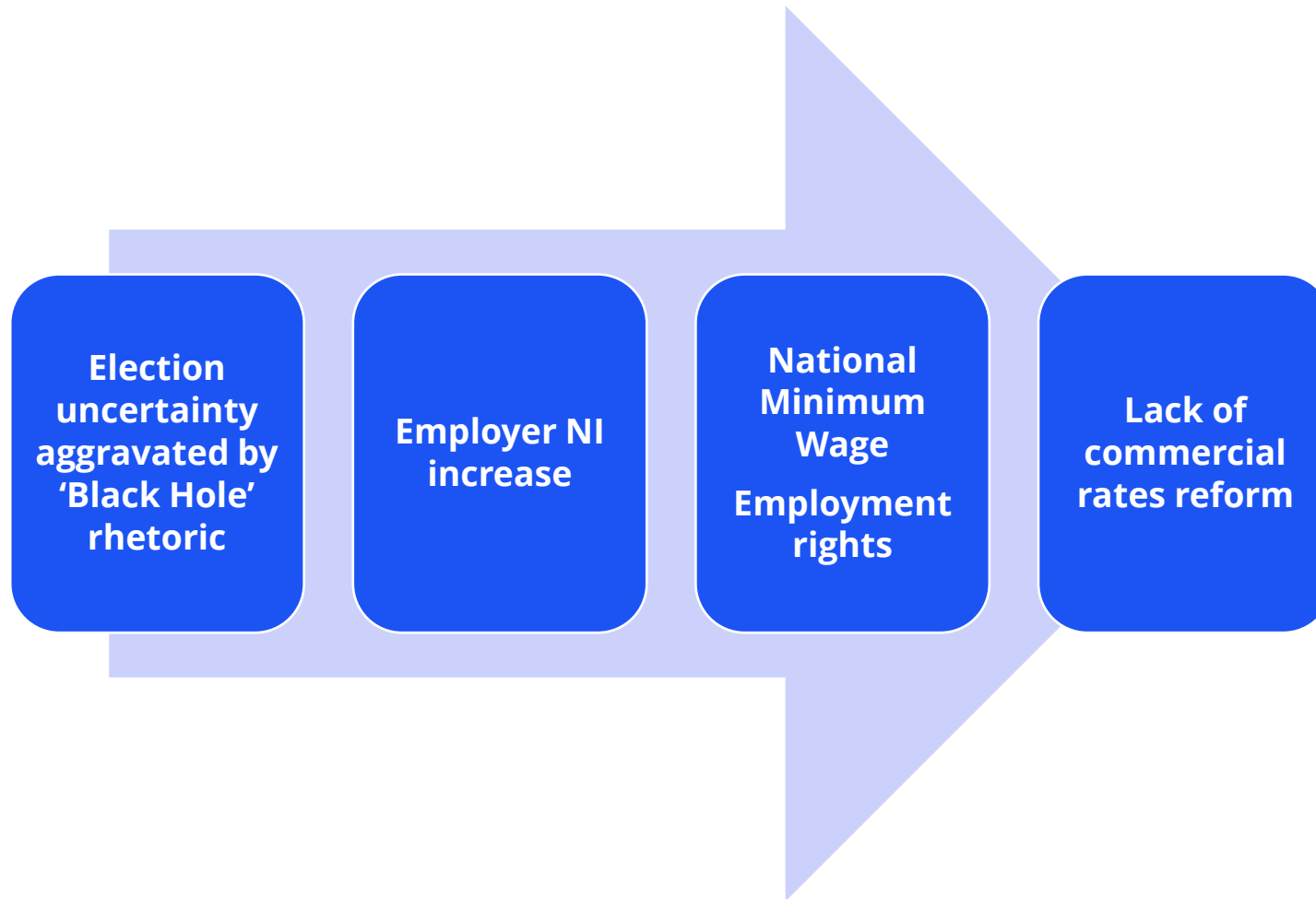
2025 Forecast	HMT Consensus	Market	OE	CE	BarCap	HSBC
Bank Rate	3.88%		3.75%	4.00%	3.50%	3.75%
GDP	0.8%		1.0%	0.8%	0.5%	0.9%
CPI	3.1%		3.0%	3.1%	2.9%	3.3%
Source: HMT Consensus Forecasts (*New), Capital Economics, Oxford Economics						

2026 Forecast	HMT Consensus	Market	OE	CE	BarCap	HSBC
Bank Rate	3.53%		3.00%	3.50%	3.50%	3.00%
GDP	1.0%		0.9%	1.2%	1.3%	1.5%
CPI	2.3%		2.4%	2.1%	2.0%	2.4%
Source: HMT Consensus Forecasts (*New), Capital Economics, Oxford Economics						



# Victims of their own hubris?

## Government fiscal policies



## Consequences

**Business and household confidence down**

**Employers (especially SMEs) impacted. Working capital impaired.**

**Consumers wage expectations diminished**

# £9.9bn fiscal headroom down to £7.7bn already due to rate rises

## Spring Budget Statement

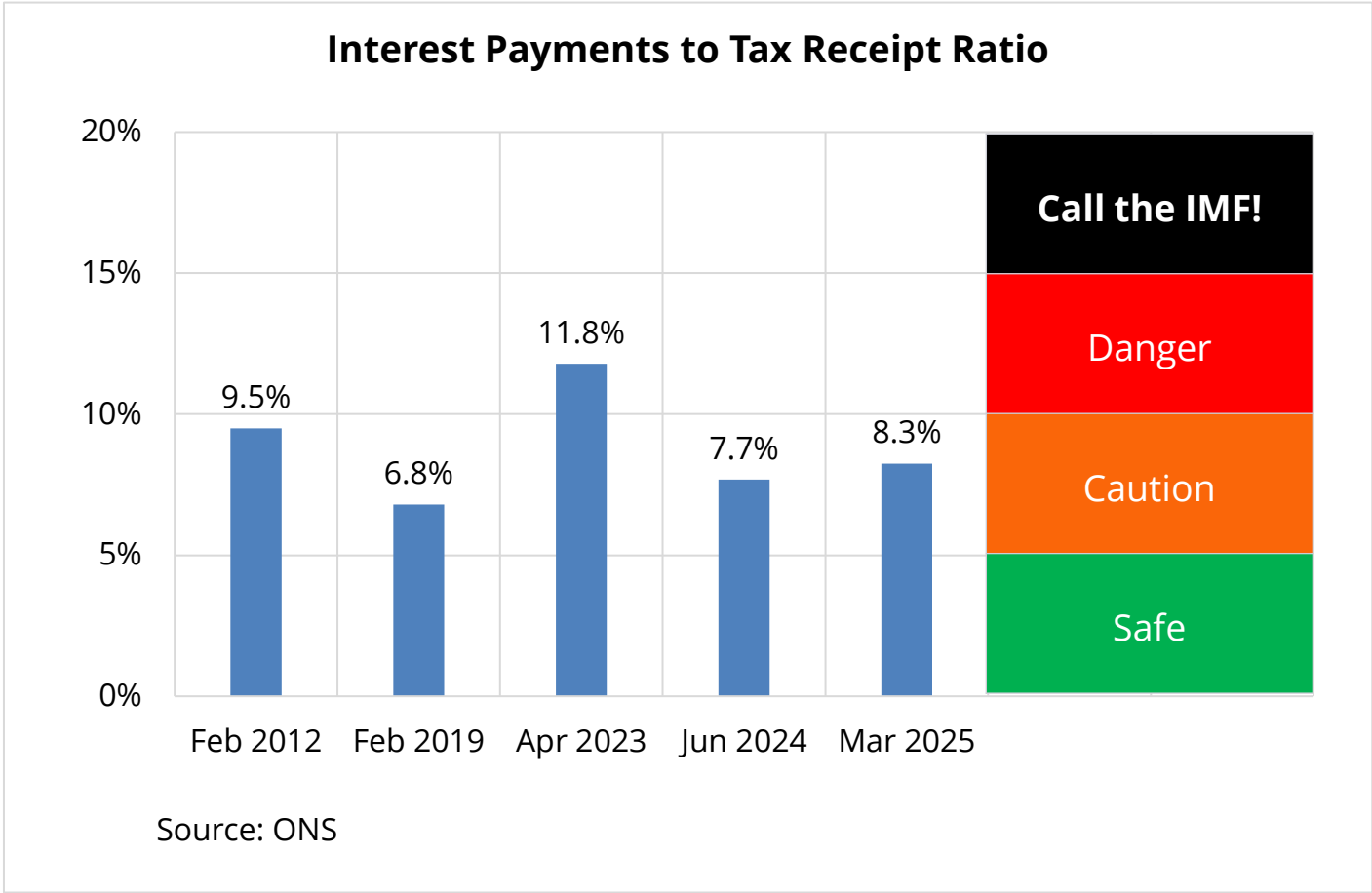
### Options

Hope for the best?	Rely on OBR optimistic forecast based on planning reform and housebuilding targets
Increase taxes?	Only after May local elections. Autumn Budget 2025
Cut spending?	Later in the budget horizon: £4.8bn welfare cut; £3.6bn departmental cuts
Pivot to fiscal stimulus?	Necessary given forward looking indicators?
Print money? QE2?	Option of last resort!?



# Spring Budget announcement imminent

## Fiscal headroom and policy





# UK purchasing manager indices weakend by tariffs

## S&P Global commentary

*“Chris Williamson, chief business economist at S&P Global Market Intelligence, said the biggest concern highlighted by the figures “lies in a slump in exports amid weakened global demand and rising global trade worries”.*

### **Update (23<sup>rd</sup> April):**

Composite PMI balance fell to from 51.5 to 48.2 -- a 29-month low

### **Update (21 Feb):**

Composite employment PMI balance fell to 43.5 in February – the lowest level since the GFC (ex-Covid)

Chris Williamson  
Chief Business Economist  
S&P Global Market Intelligence  
23<sup>rd</sup> April 2025

# Looking ahead

## Key dates to watch

6 April: NI & NMW changes come into effect

**1 May: UK Local elections**

7 May: US Fed meeting

8 May: Bank of England meeting

**15 May: Q1 2025 GDP 1<sup>st</sup> estimate**

21 May: HM Treasury Forecasts for the UK Economy

18 June: US Fed meeting

19 June: Bank of England meeting







Occupational

Industrial markets

## ***China's Trade Surplus Reaches a Record of Nearly \$1 Trillion***

China's vast exports in 2024 exceeded its imports on a scale seldom seen anywhere except during or immediately after the two world wars.



# It's complicated. Trade has changed! It's about business ecosystems!

## The impact of tariffs

Consumption vs savings

Preference for imports

Price of foreign goods

Household budget constraint

Home producer prices

Demand (foreign & domestic)

Monetary policy target

$$U = \int_0^{+\infty} \left( \frac{C_t^{1-1/\epsilon_i} - 1}{1 - 1/\epsilon_i} - \frac{N_t^{1+1/\epsilon_\ell}}{1 + 1/\epsilon_\ell} \right) e^{-rt} dt,$$

$$C_t = \left( \omega_H^{1/\epsilon_m} C_{Ht}^{(\epsilon_m-1)/\epsilon_m} + \omega_F^{1/\epsilon_m} C_{Ft}^{(\epsilon_m-1)/\epsilon_m} \right)^{\epsilon_m / (\epsilon_m-1)},$$

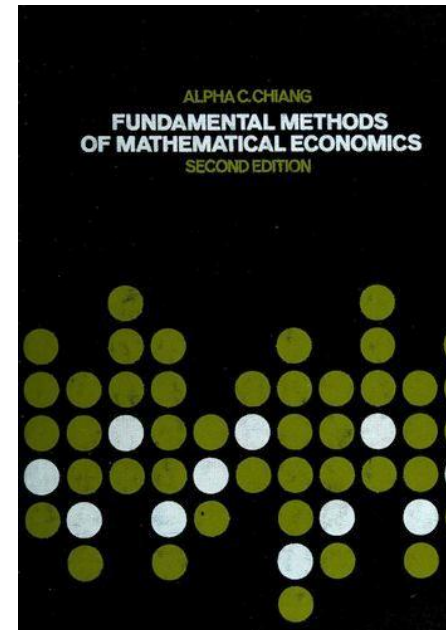
$$P_{Ft} = (1 + \tau_t) E_t P_t^*$$

$$\dot{B}_t + \frac{P_{Ht}}{E_t P_t^*} C_{Ht} + (1 + \tau_t) C_{Ft} = \frac{W_t N_t}{E_t P_t^*} + Z_t + D_t + r B_t$$

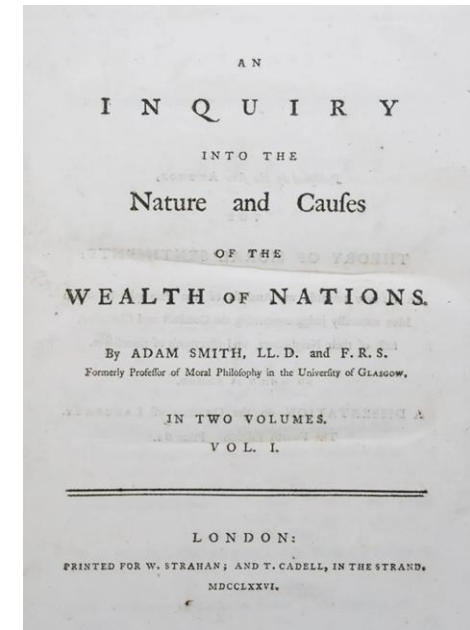
$$\pi_t = \hat{\pi} + \alpha \int_t^{+\infty} \left( \frac{W_{t'}}{P_{Ht'}} - 1 \right) e^{-r(t'-t)} dt'$$

$$Y_{Ht} = C_{Ht} + [(1 + \tau_t^*) S_t]^{-\epsilon_x} M_t^*$$

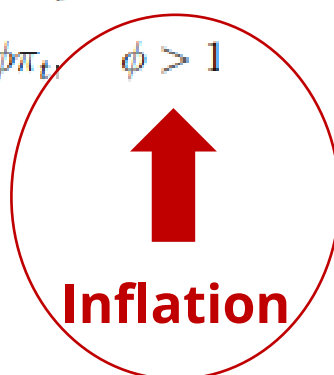
$$\dot{i}_t = r + (1 - \phi) \hat{\pi} + \phi \pi_t, \quad \phi > 1$$



Alpha Chiang  
Mathematical Economics  
1<sup>st</sup> edition 1967  
4<sup>th</sup> edition 2005



Adam Smith  
Trade theory  
1<sup>st</sup> edition 1776  
5<sup>th</sup> edition 1789



Source: Jeanne & Son. "To What Extent are Tariffs Offset by Exchange Rates?". NBER (2021).



# Sector specific observations – another supply chain impact

## Tariffs impacts – industrial

### Short-term

- Cheap Chinese goods arriving in Europe?
- Unforeseen 'supply chain' shift/disruption.
- Mitigated by European-wide logistics platforms under common ownership?
- A further boost to UK inventory buffers, on-shoring/near-shoring driving demand for space?

### Long-term

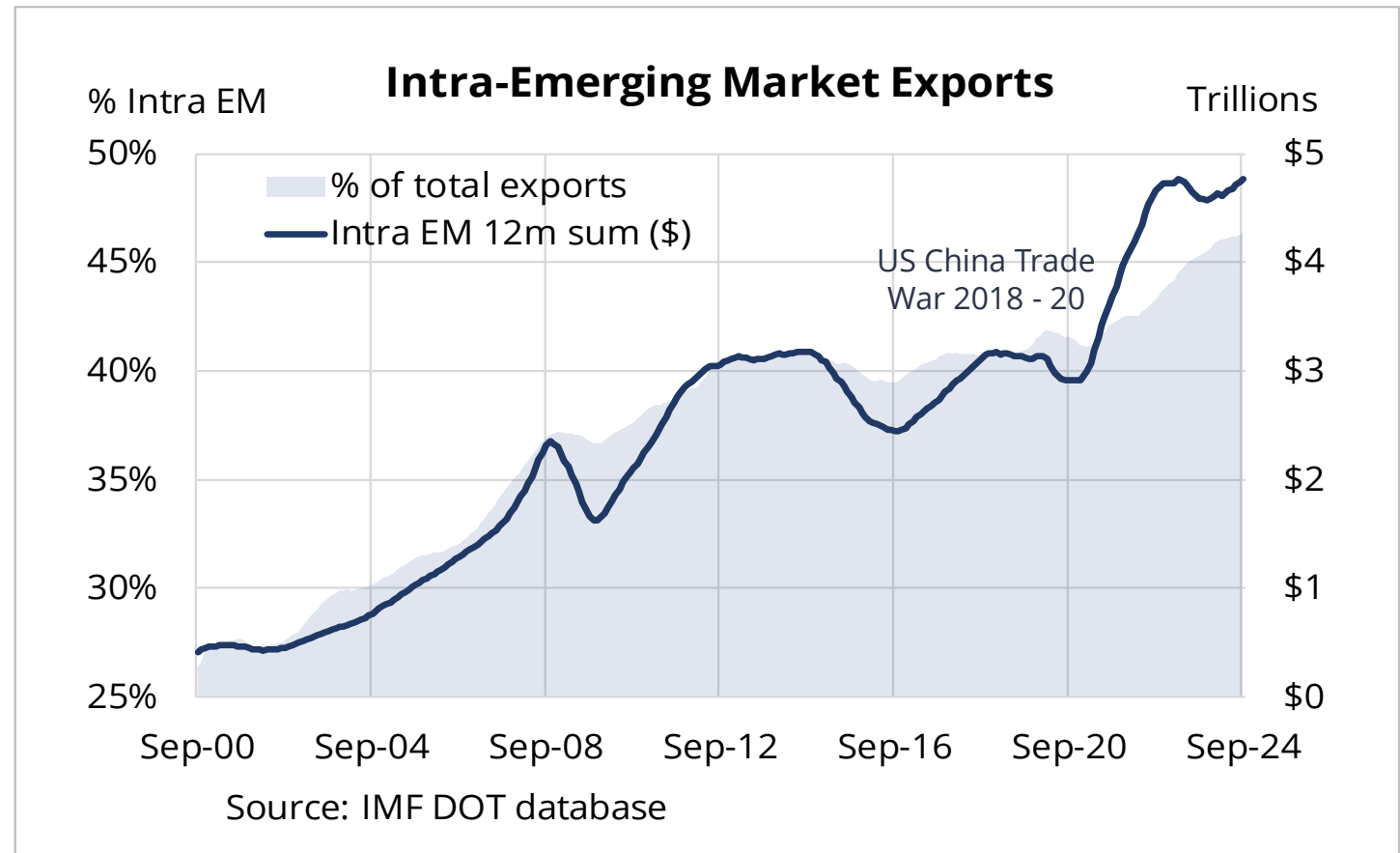
- **EU transition from an export-led economy** to a domestic-led economy driven by developing its internal markets (consumption)!!!
- UK will benefit even if not part of the common market



## Consolidation of intra-emerging market trade

# US trade policy accelerating existing global shifts

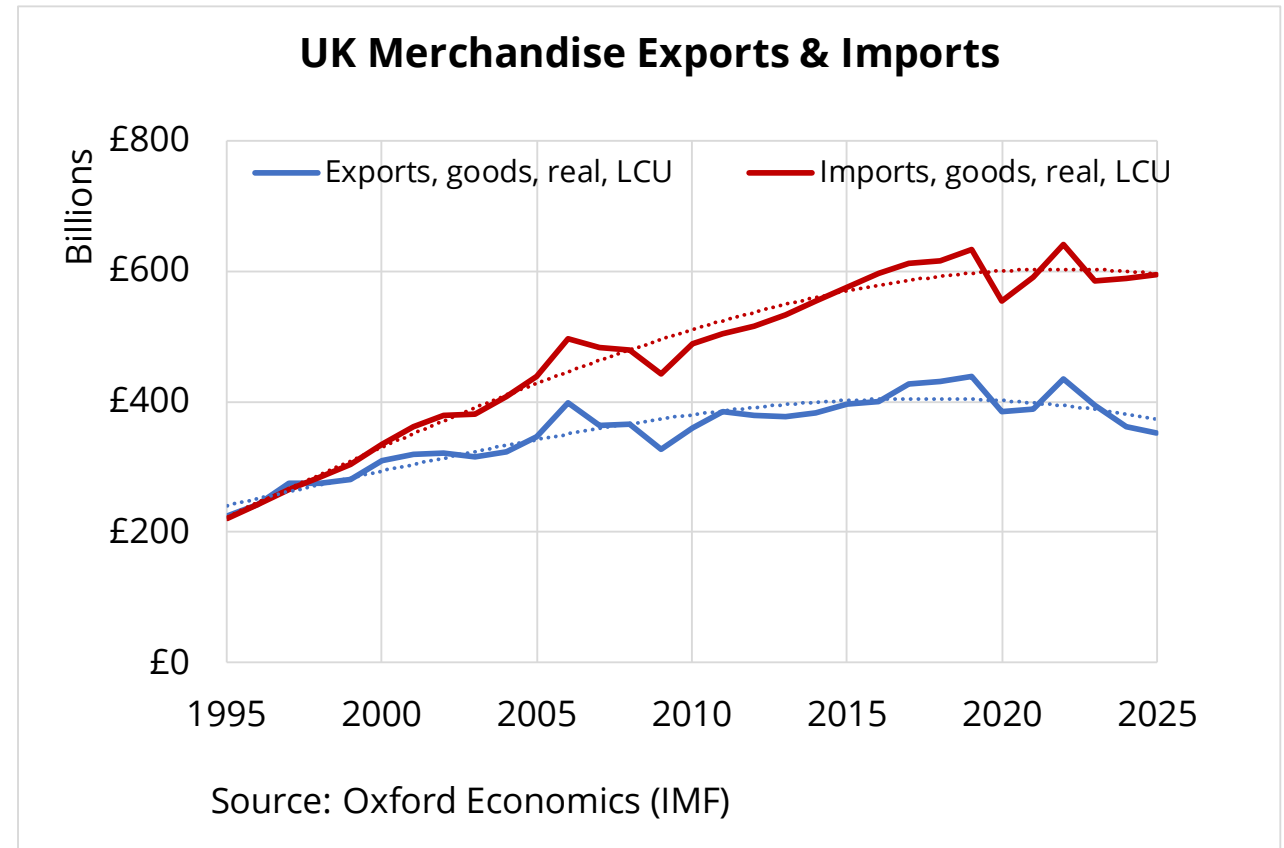
- Intra-EM trade growing rapidly and accounts for 47% of all EM exports
- Annual value of Intra-EM trade up by half from £3 trillion to almost £5 trillion since 2019.
- As EM domestic demand grows, global competition for international manufactures and capital goods will grow
- New inflationary pressures may arise and threatened western capital goods exporters



# Tariffs will undermine intra-developed market trade further

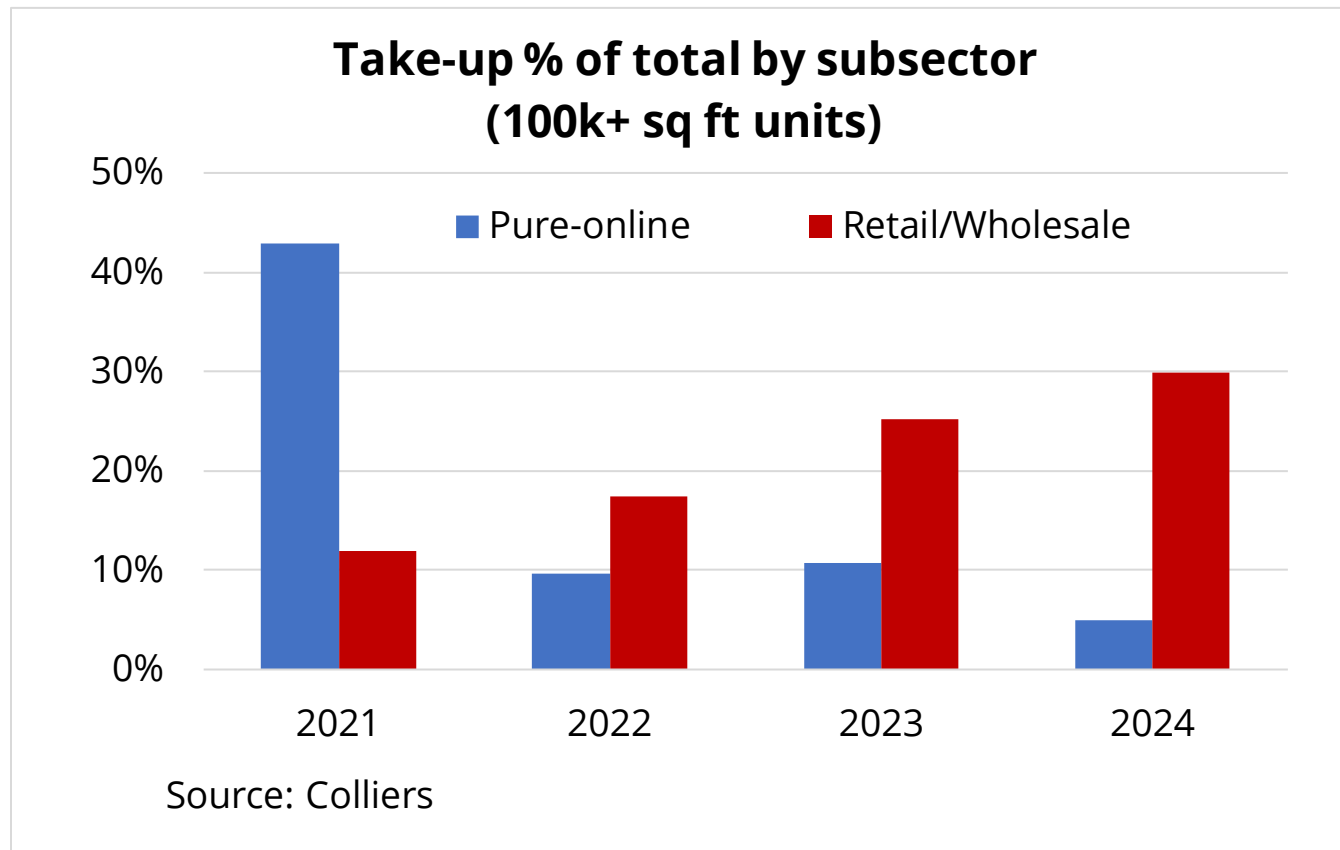
## UK merchandise trade already in abeyance

- Advanced Economies need to get their house in order or be overtaken by consolidation of Emerging Market trade
- UK trade growth already limited
- UK port operators faced with increased capital investment:
  - i. *Scale of container ships*
  - ii. *Supply chain logistics*



**E-commerce demand stable. Retailers/wholesalers re-building inventories**

## UK logistics market trends

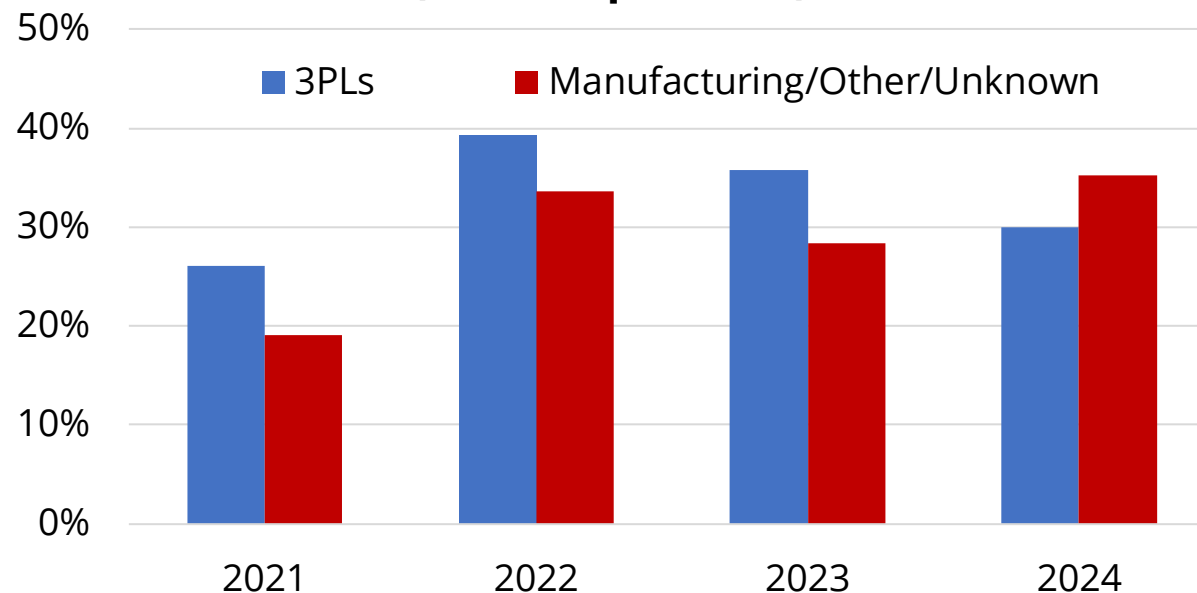




# 3PL consolidations (M&As) & manufacturing supply chain security

## UK logistics market trends

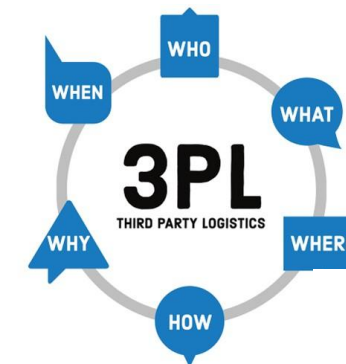
**Take-up % of total by subsector  
(100k+ sq ft units)**



Source: Colliers

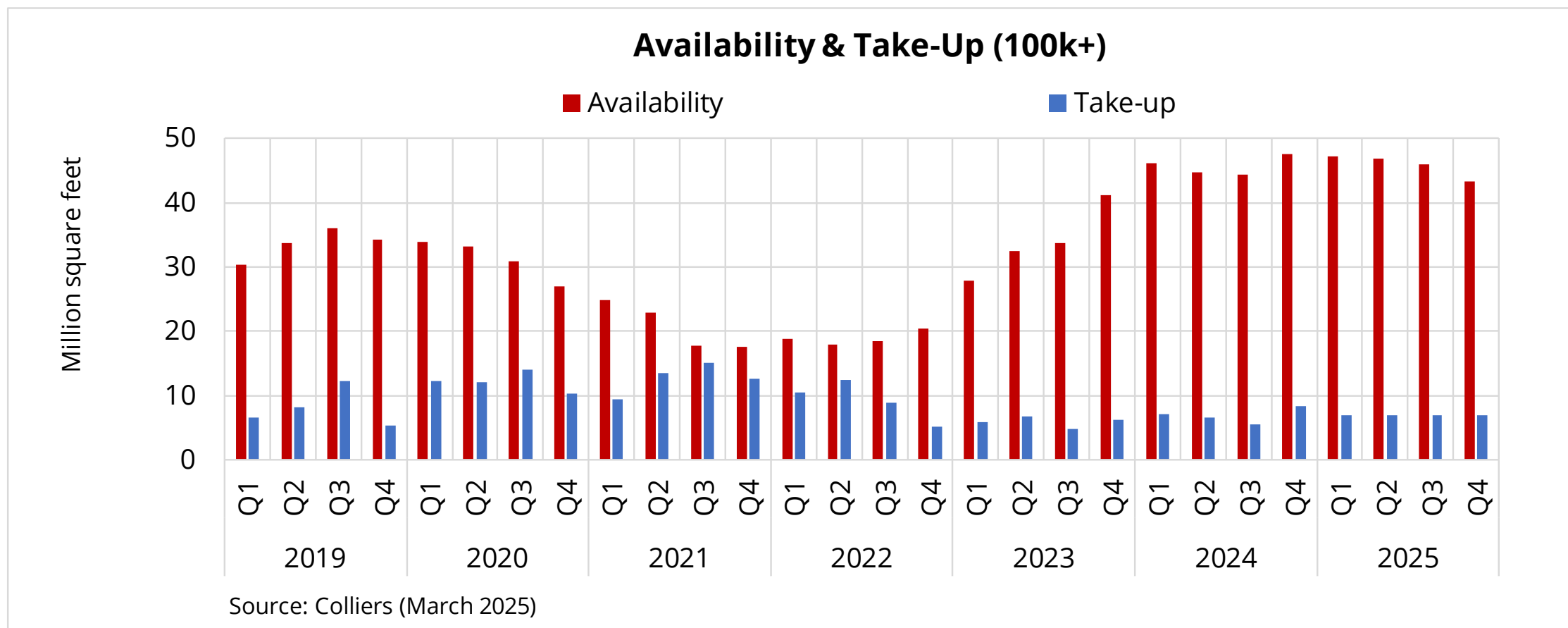
### Mergers & Acquisitions (examples)

- Culina Group (UK) acquired Green White Star (Eddie Stobart, iForce and Pallet Network) – 40 warehouses 20 million sq ft (2021)
- GXO (US) acquired Clipper Logistics 50 sites across UK/Europe 10 million sq ft (2022)
- CEVA (FR) Logistics & Wincanton – 52 warehouses 8.6 million sq ft (2024)



**Depends how you look at it!**

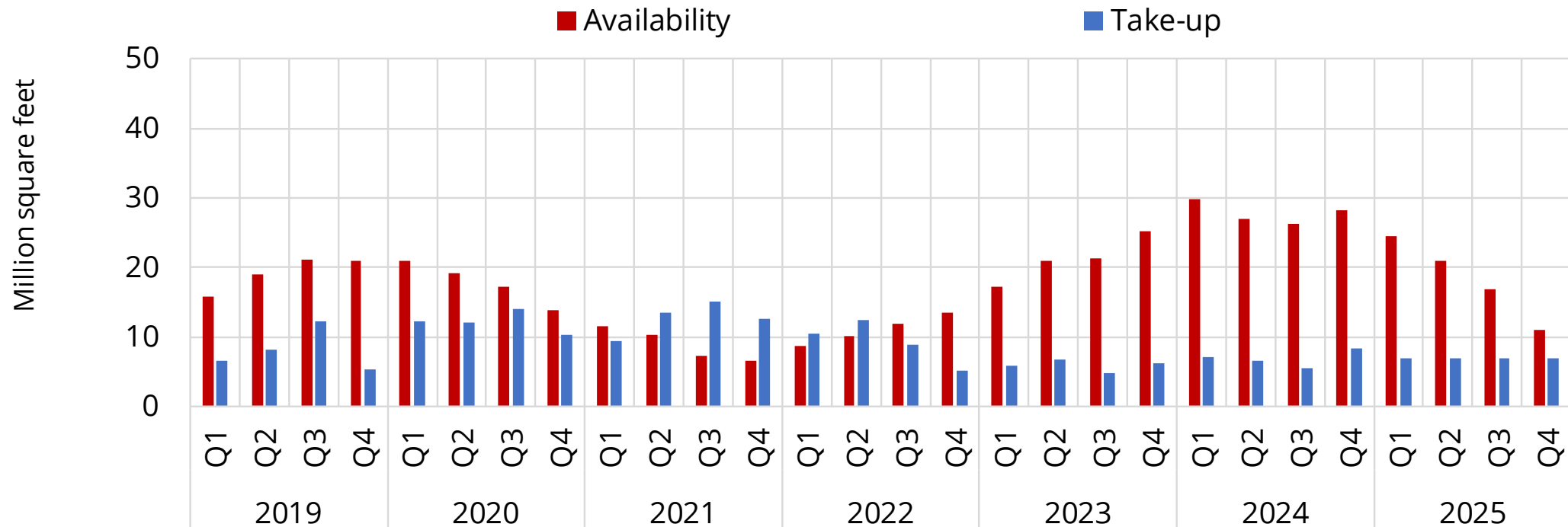
# Industrial logistics oversupplied?



**Depends how you look at it!**

# Industrial logistics oversupplied?

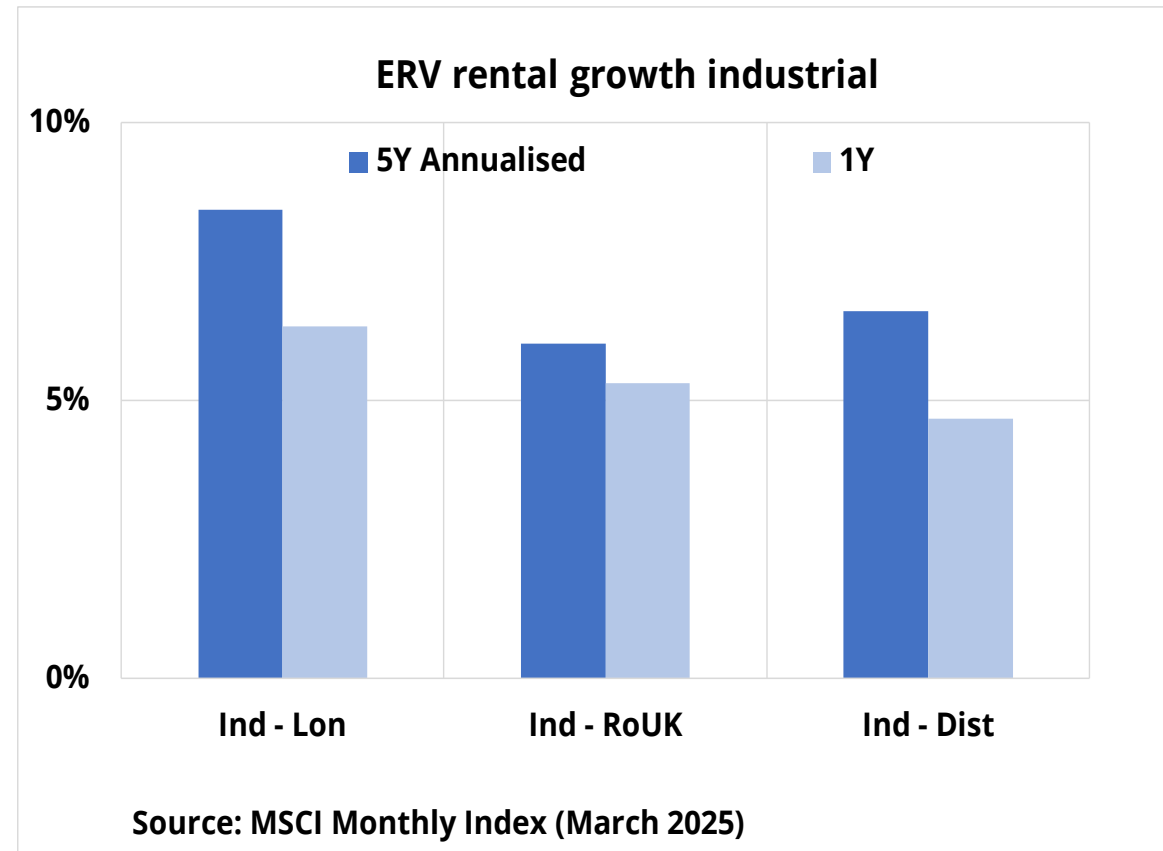
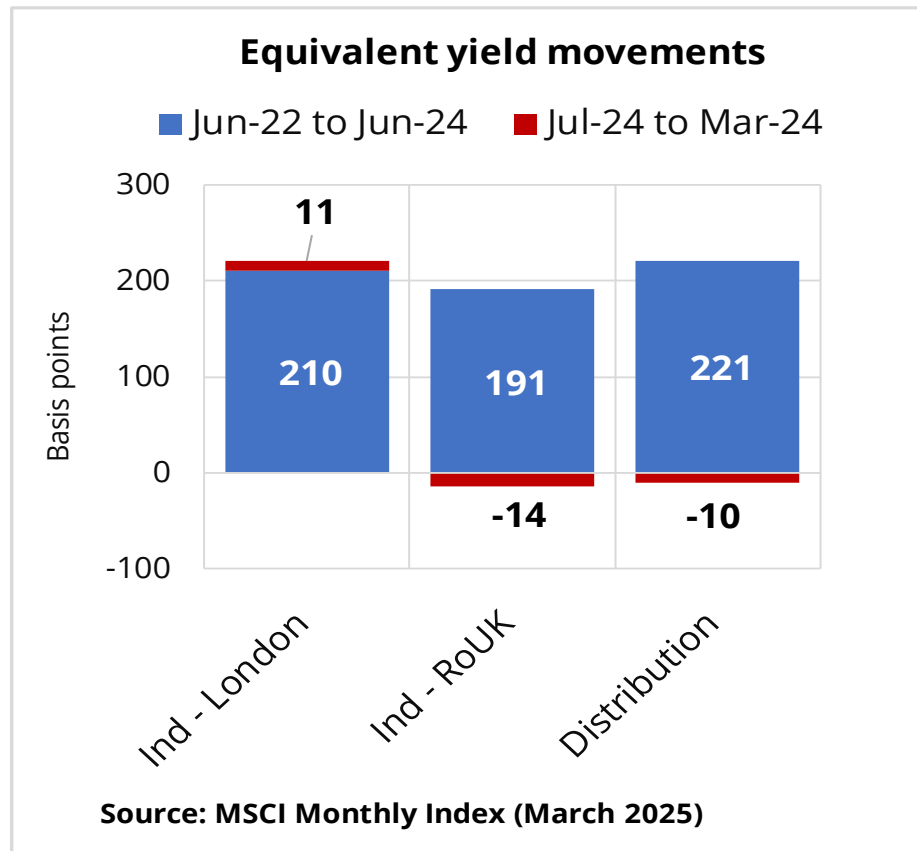
## Grade A - Availability & Take-Up (100k+)



Source: Colliers (March 2025)

# Industrial still attractive to investors

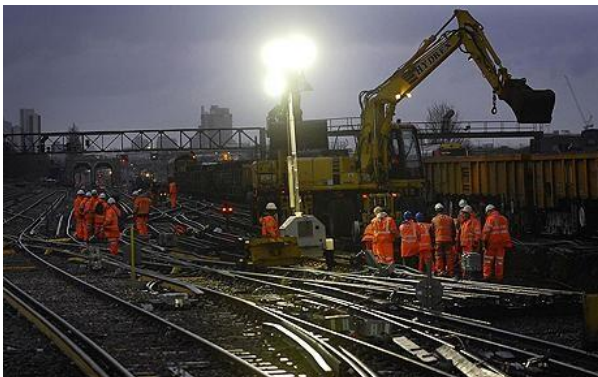
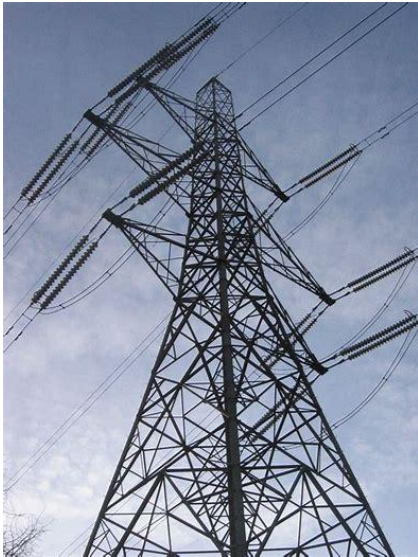
## Rental growth still evident





# Power availability is as important as planning permission

## A host of other problems



- **Power**
  - ✓ *Grid congestion SE, SW and Scotland*
  - ✓ *Ageing infrastructure*
  - ✓ *Electricity from gas expensive*
  - ✓ *Grid capacity to receive power*
  - ✓ *Capacity hoarding*
- **Road congestion.** Lack of investment in roads/rail to facilitate trunk movements of goods from ports to inland warehouses.
- **Ports.** Future proofing and increasing channel capacity to handle larger container ships and remain competitive.
- **Planning.** Lack of strategic planning. Warehouses not considered strategic planning reviews are done on a local level.
- **Lack of Representation.** Labour has not assigned Logistics its own MP to represent the sector
- **Leases.** Mismatch between operator and landlord requirements





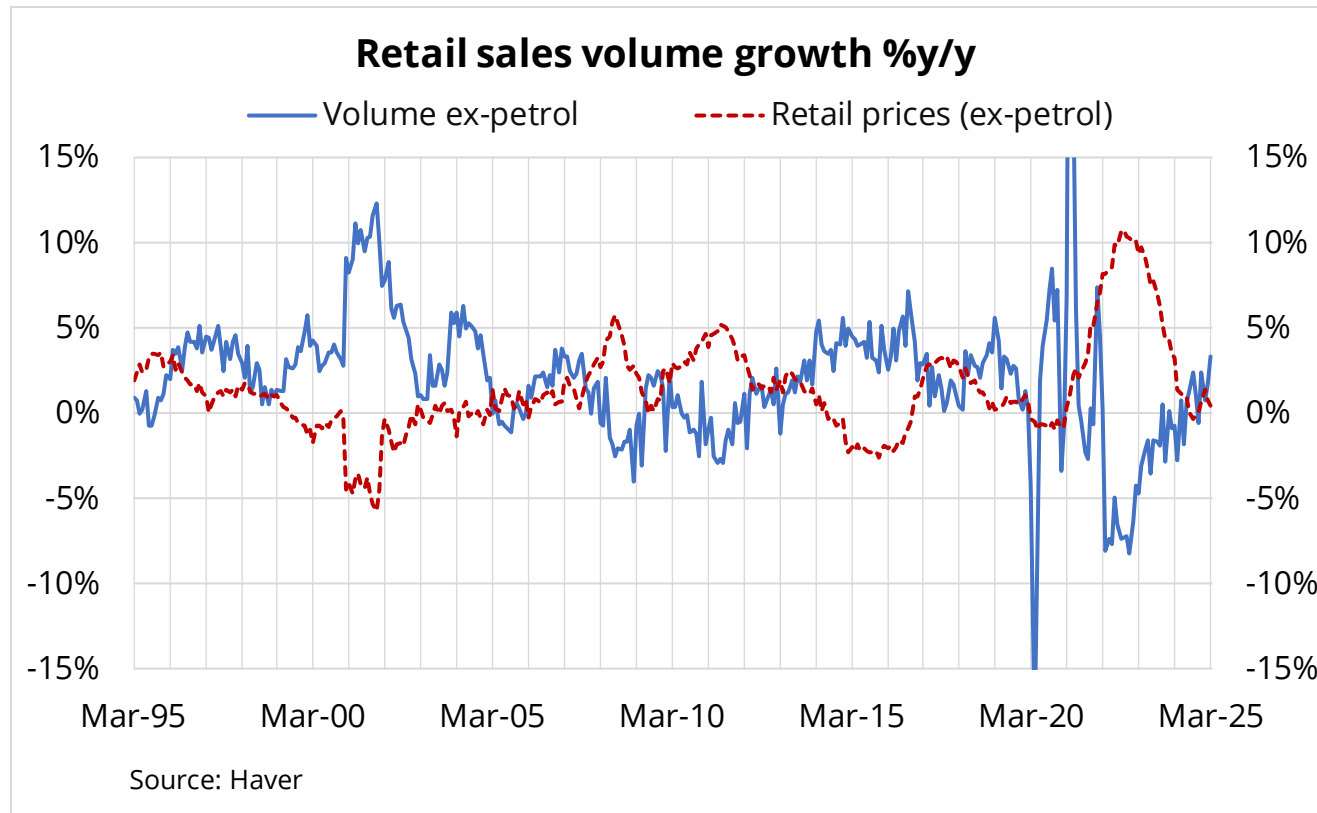
Occupational

Retail markets



# Squeezed by weak sales and high input costs

## Retail operators still struggling?



### Demand very price sensitive

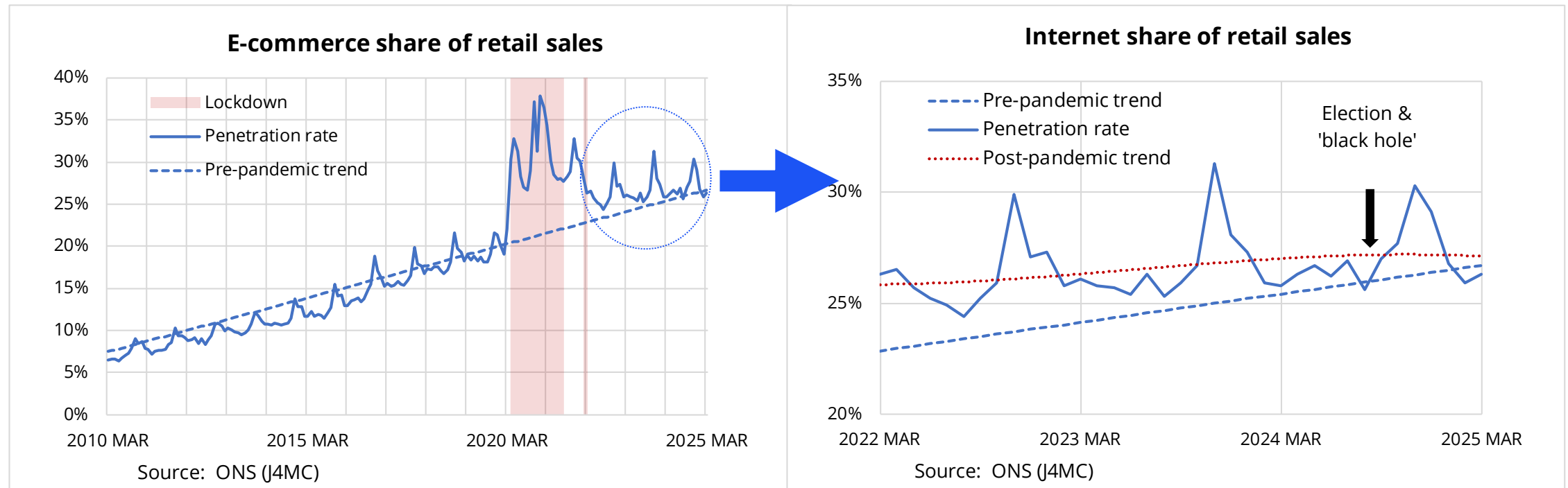
- ✓ **Correlation -0.77** (excluding Covid)
- ✓ Prices high
- ✓ Consumer confidence low
- ✓ Household savings ratio elevated

### Supply costs up

- ✓ Labour shortages
- ✓ Wages up
- ✓ Producer prices up
- ✓ Utilities up (heat & light)
- ✓ NI employer taxes up
- ✓ High debt costs (operating capital expensive)
- ✓ **No relief from commercial rates reform**

## Sector specific issues

## E-commerce market penetration stabilising?

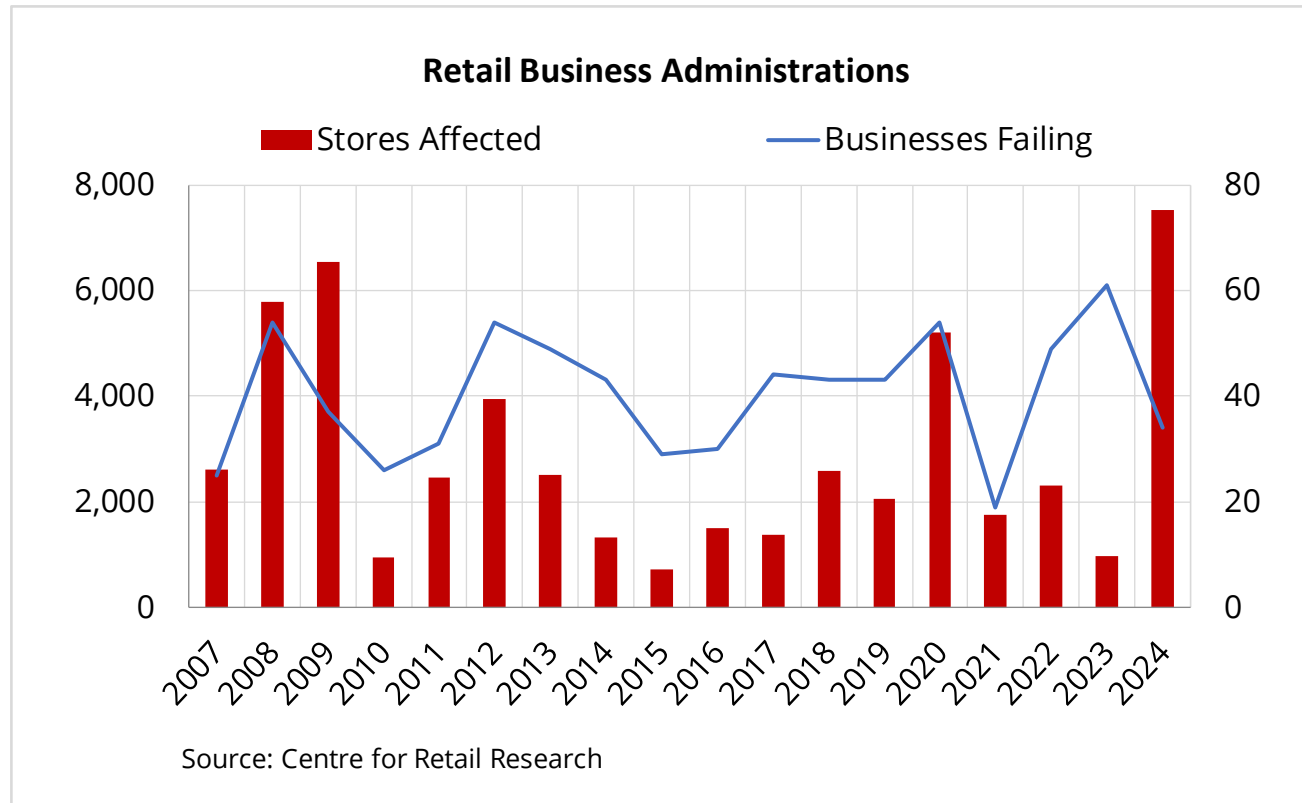


- E-commerce penetration below pre-pandemic trend for the second time in six months.
- E-commerce generally strengthens from September to November and then weakens from December to August.
- Non-store deflator shows levels of discounting not seen since lockdown, especially household goods.
- GfK shows low appetite for major purchases (cars, appliances, electronics, furniture).
- Savings ratio remains very high at 11.6%. LTA = 8.4



# Squeezed by weak sales and high input costs

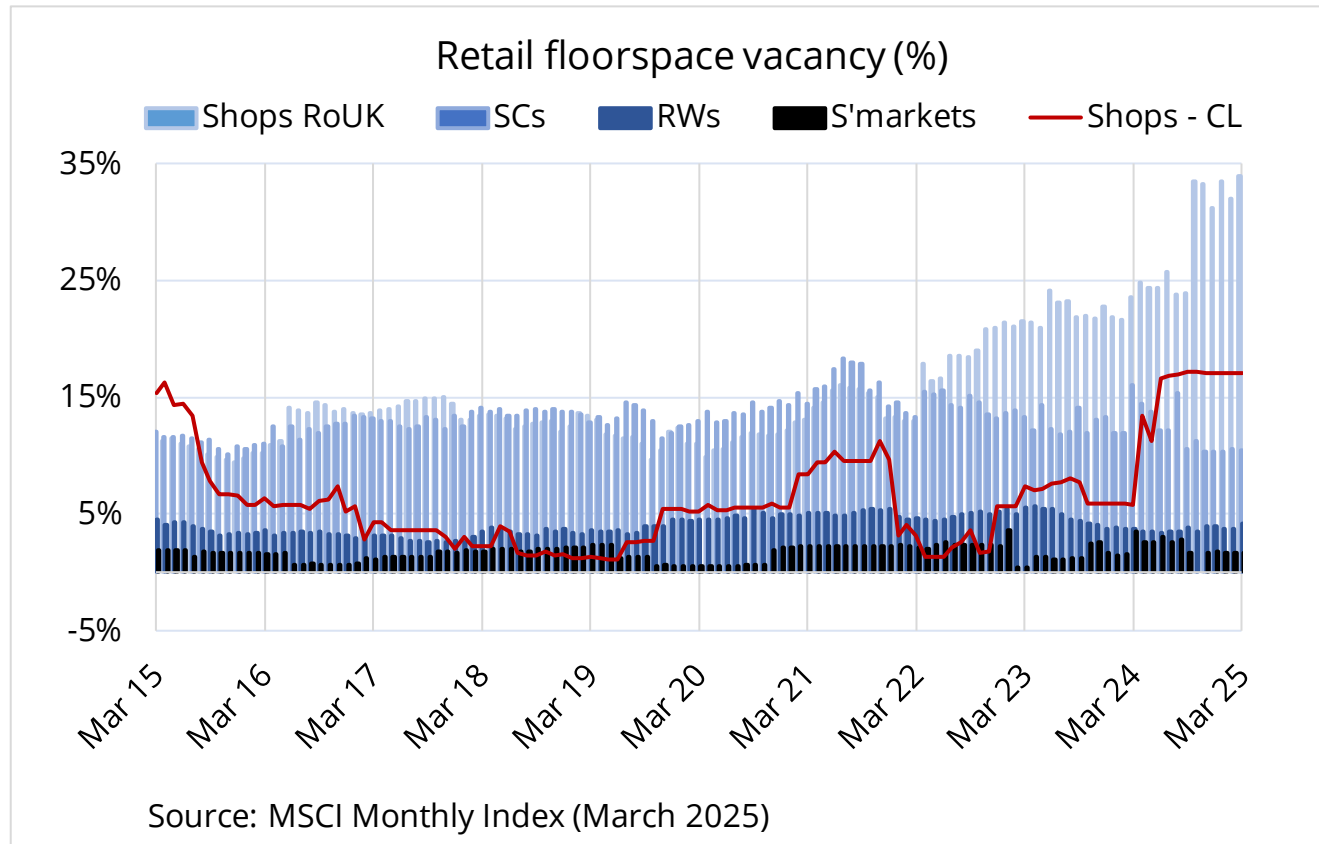
## Retail operators struggling?



- Property metrics suggest that regional high streets are in the line of fire.
- Regional vacancy rate at over 30%.
- London vacancy rate high over 15% but looks to reflect large amount of redevelopment across all the London High Streets.
- Noteworthy administrations in the retail warehouse sector. But high demand ensures that vacant space is absorbed very quickly.

# Regional high streets most vulnerable to latest government policies

## High street vacancies elevated



- **Supermarkets.** Virtually nil vacancy and strong demand for mid-sized formats.
- **Retail warehouse.** Vacancy rate low at 4% (0% in most locations). Strong demand.
- **Shopping centres.** Recovery continues. Consolidation of small units into larger units adapted for international brands.
- **Regional high streets.** Churn. Flight of small format operators from town centre shopping centres back to high streets. Impacted most by administrations.
- **London.** Vacancy rate **17.1 percent?** Redevelopment has distorted the data.

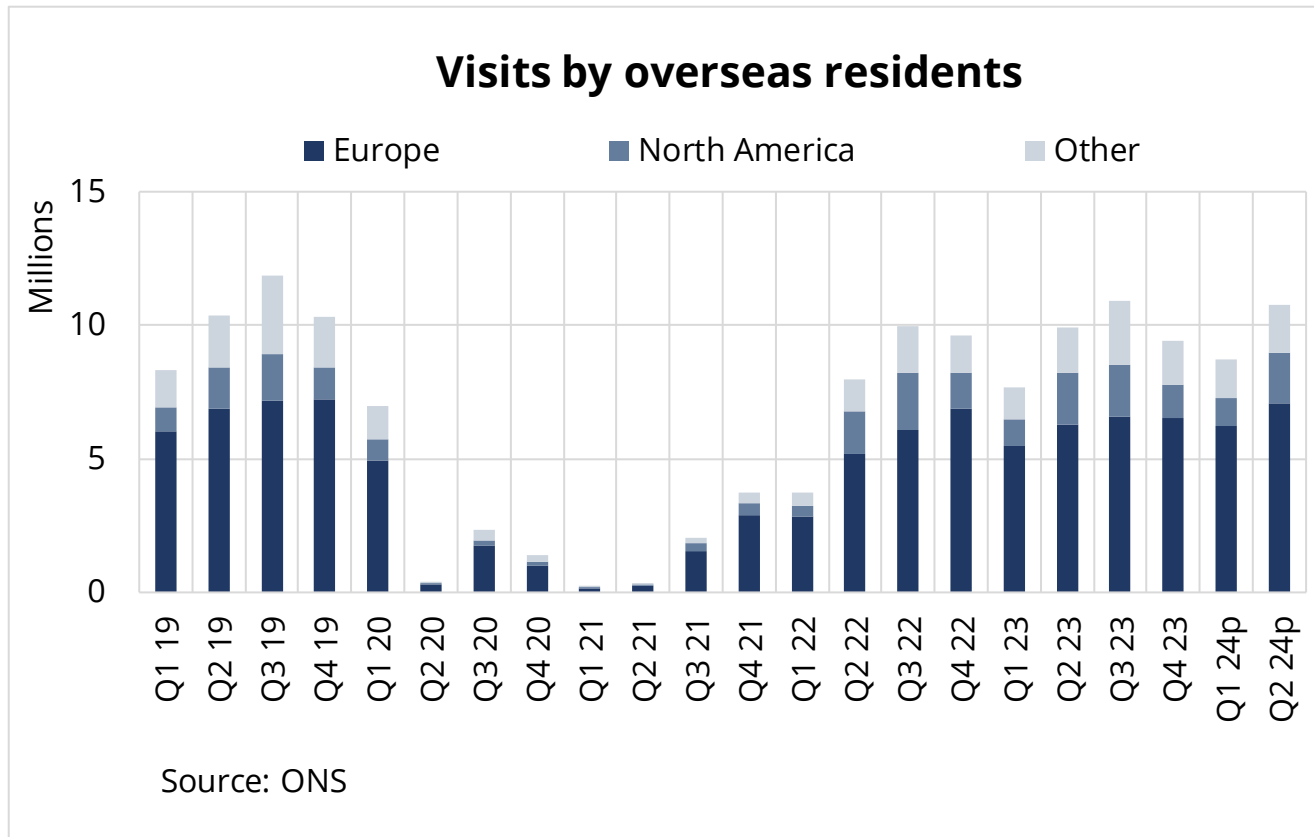
# London retail paradigm shift in brands and formats

## London redevelopment and redefinition



- **Redevelopment.** London vacancy data distorted due to redevelopment and remarketing that began in 2021.
- **Health Market Evolution.** New wellness concepts. “Think full body scans meets botox in a retail environment.”
- **Pre-Loved Momentum.** Zara launching own line and Hurr delivering dresses in 20 minutes via Deliveroo.
- **Luxury Redefined.** Tidal shift in customer perceptions and expectations Global sales slowing. Brand innovation, refits, popups and strategic shifts in store portfolios.

# Previous patterns evident but loss of tax-free shopping UK tourism recovered but London still missing out

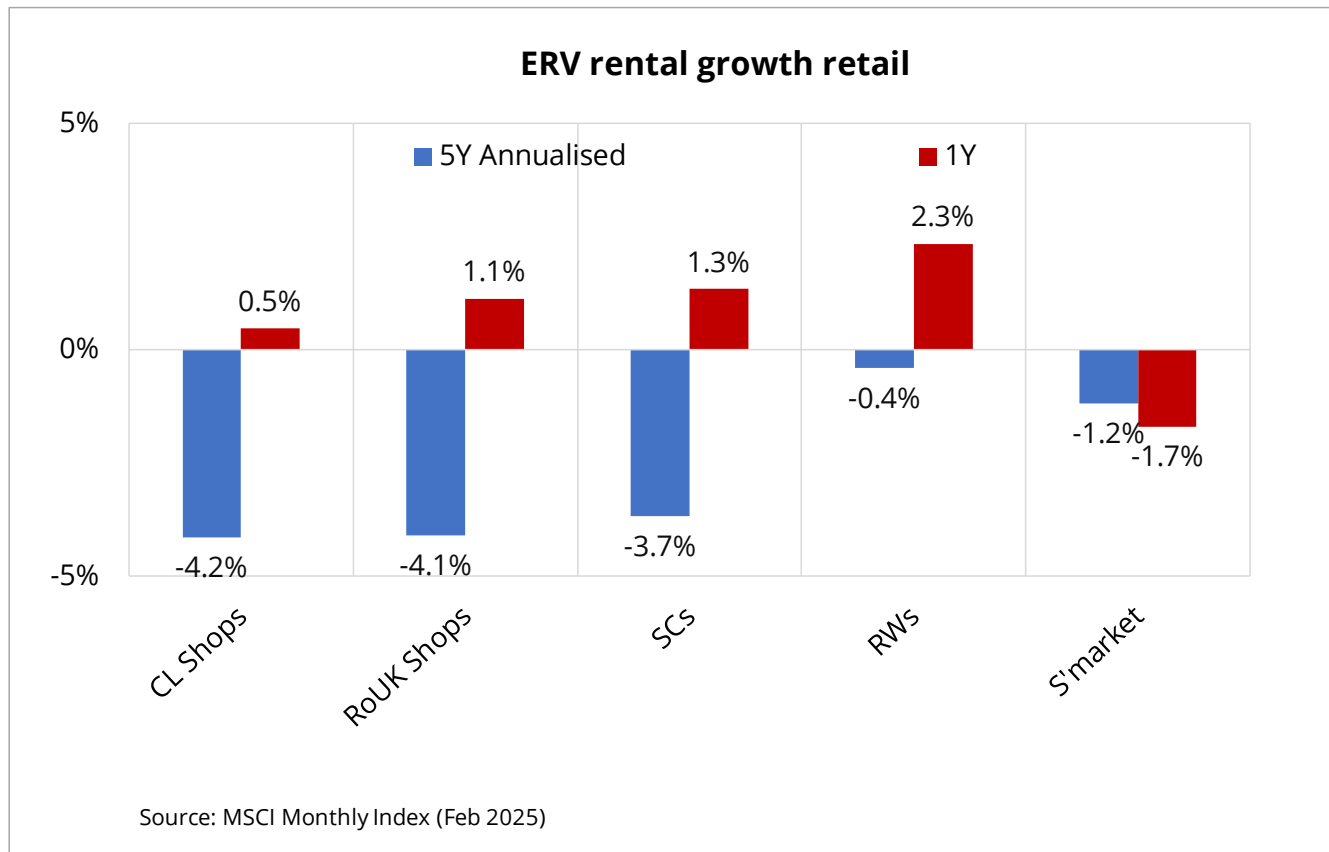


- Chinese shoppers almost to pre-pandemic levels. Spending down. **Tax-free shopping** has diverted tourist spend to other European countries.



# Retail property metrics improving after years of rebasing

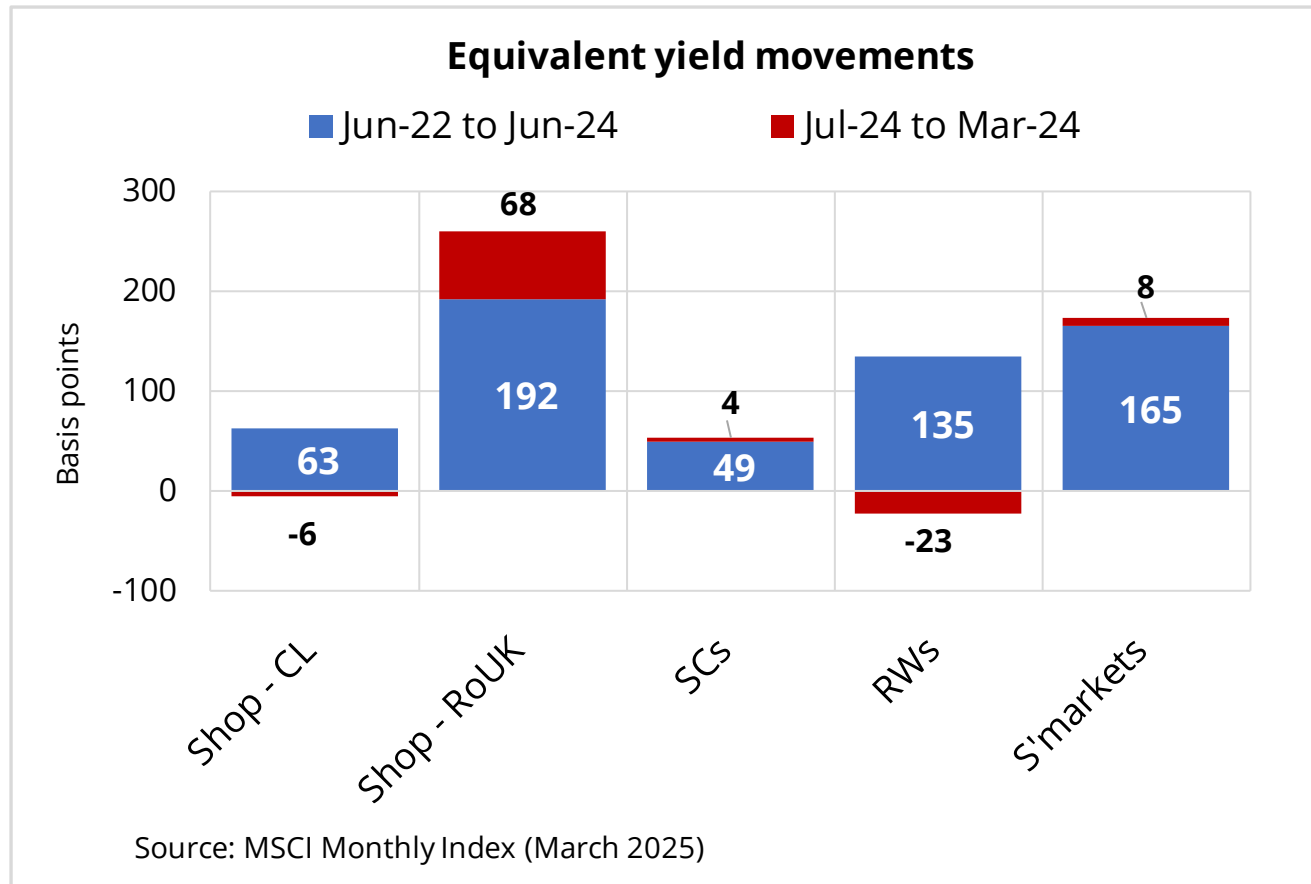
## Rental growth evident across subsectors?



- **Supermarkets.** Market bifurcation. Lease extensions and re-gears offered by institutions at a discount to satisfy annuity pressures. Mid-sized operators acquisitive driving rental increases (Lidl, Aldi).
- **Retail warehouse.** Growth underestimated due to long-leases and limited churn. Increases of 50% recorded. Lease break surge expected in 2025.
- **Shopping centres.** Not much movement until deal flow increases.
- **Regional high streets.** Shopping centre refugees driving rental growth.
- **London.** Stable pending new agreements as new space absorbed.

# Retail property metrics improving after years of rebasing

## Investors are responding to mis-pricings



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Approved design set  
to be delivered from  
2027 after HSBC  
moves to City

Occupational

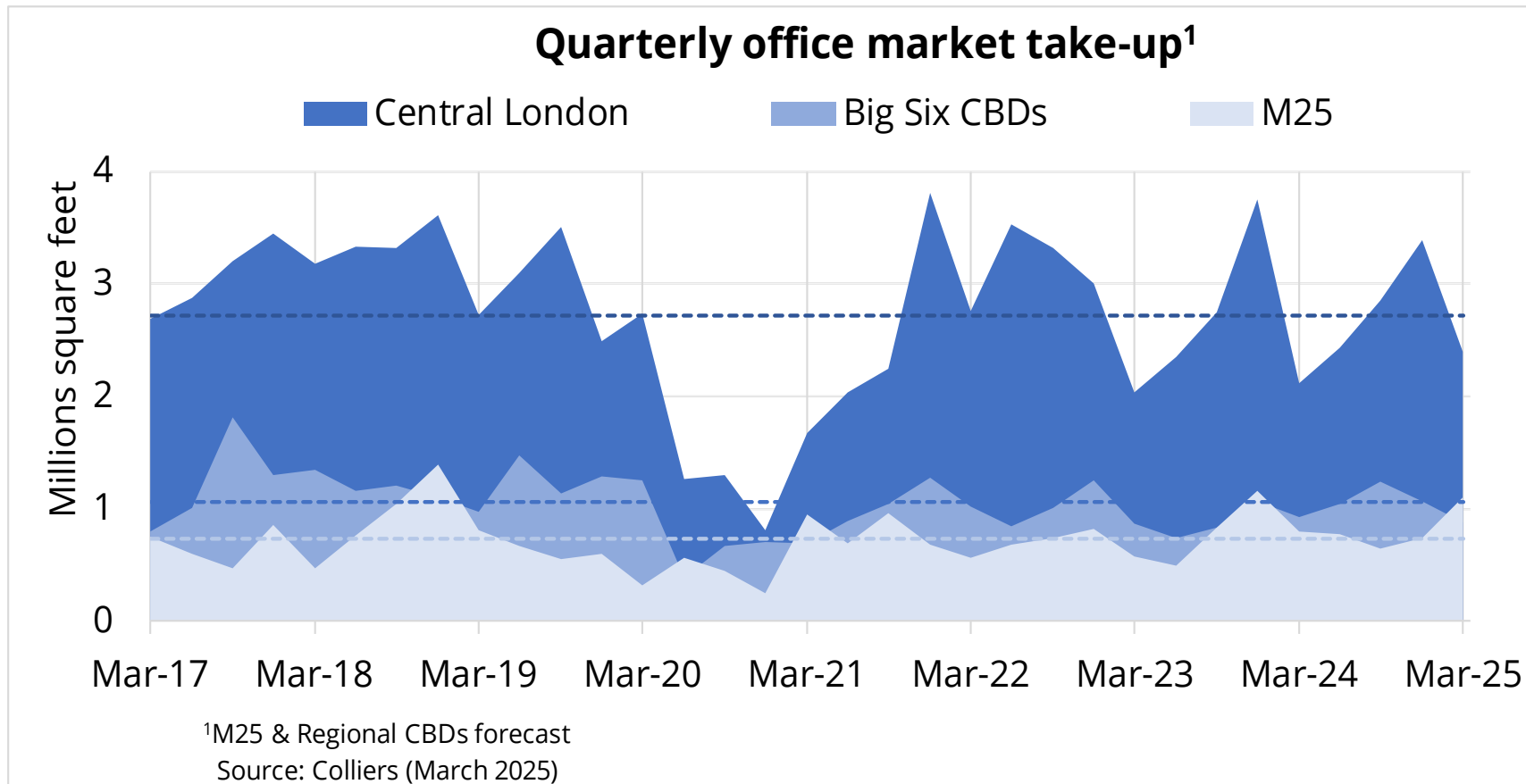
Office markets





# Diversity of demand evident across all markets

## Leasing demand steady



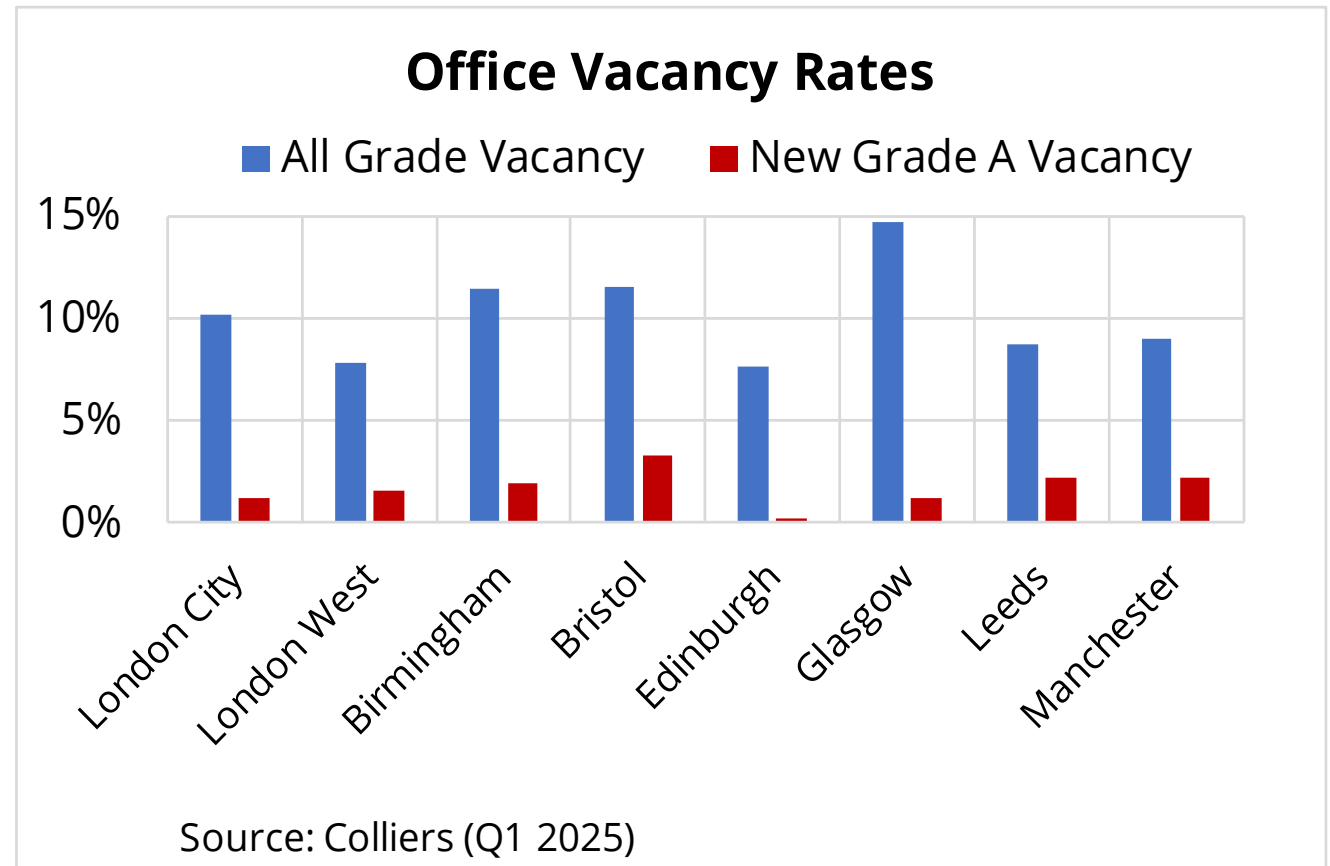
- London down as deals continue to be buffeted by uncertainty
- Regional CBDs around 10-year average, although Leeds and M25 showing strength
- Scotland buffeted by political uncertainty
- M25 substantial deals carried over from 2024 completed



# Subprime performance still buoyant in the absence of prime

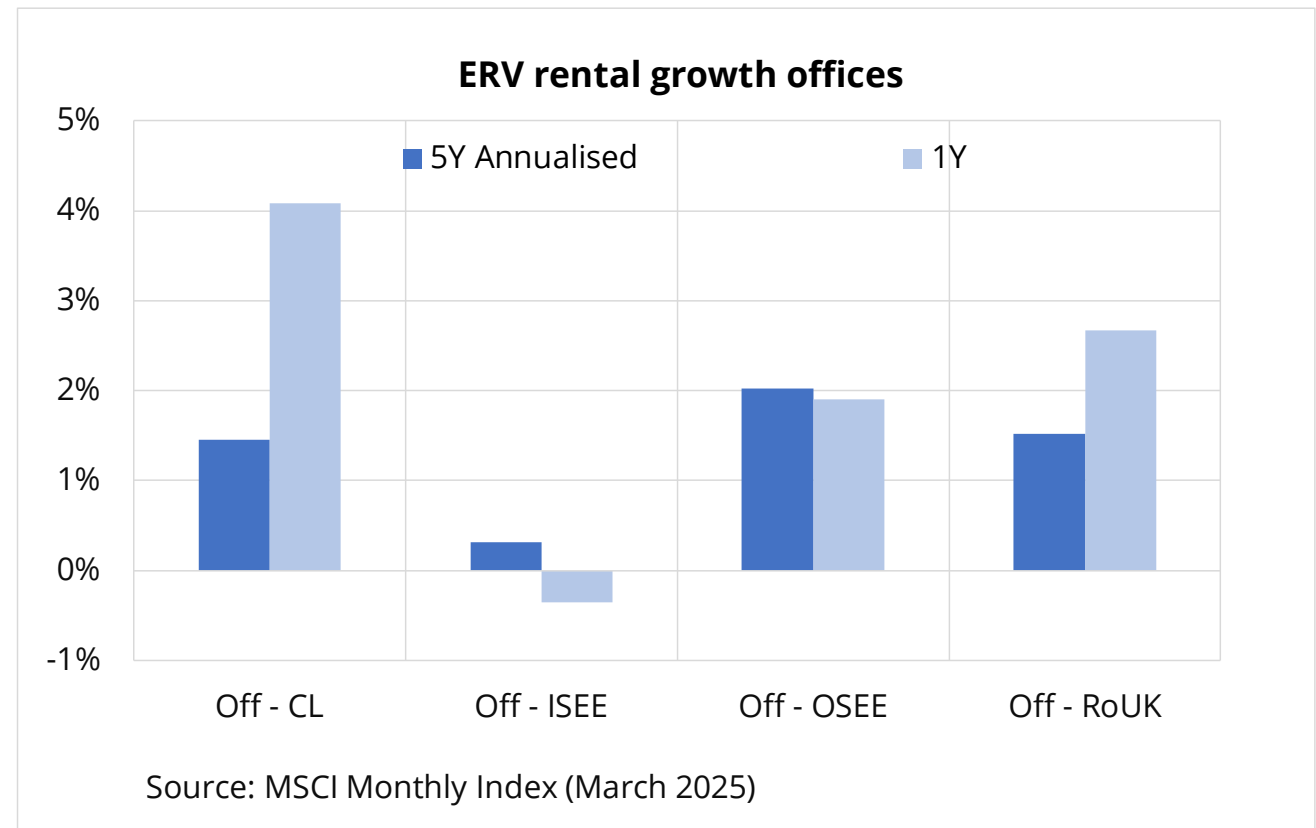
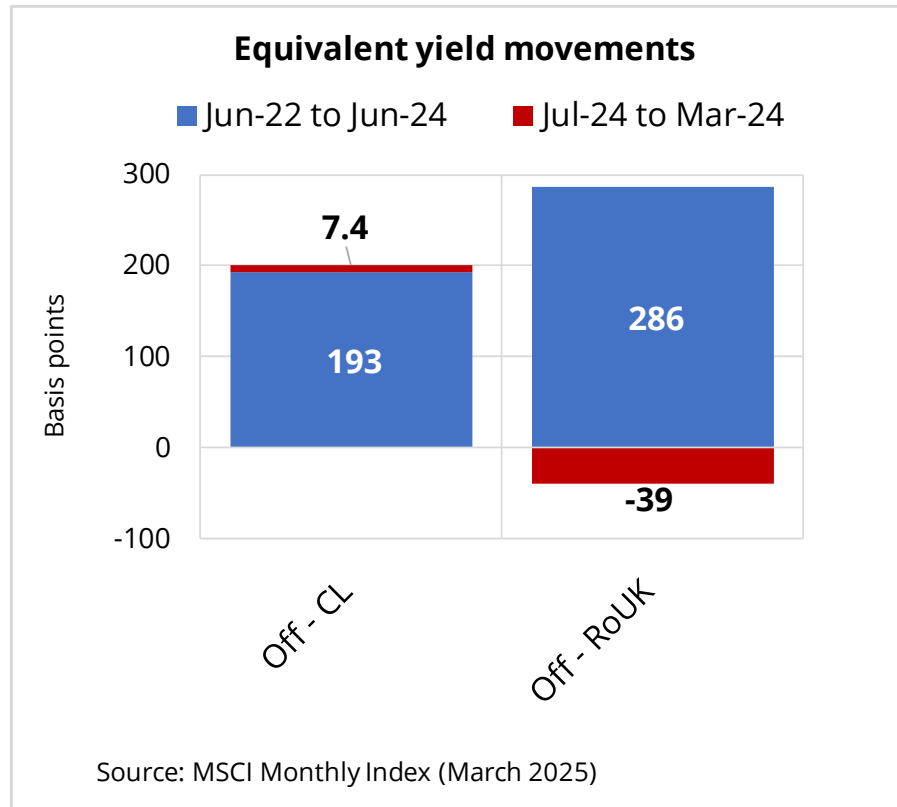
## Grade A availability very limited

- Strong take-up for prime, future proof, ESG compliant space still evident and led by finance, tech and legal.
- Technology companies and international banks looking for space across regional markets
- Shortage of Grade-A space persists in the absence of development finance.
- Pre-covid occupancy between 65% and 80%.
- Latest data shows occupancy at 55% to 65% on Tu,We,Th and 35%to 45% on Mo,Fr



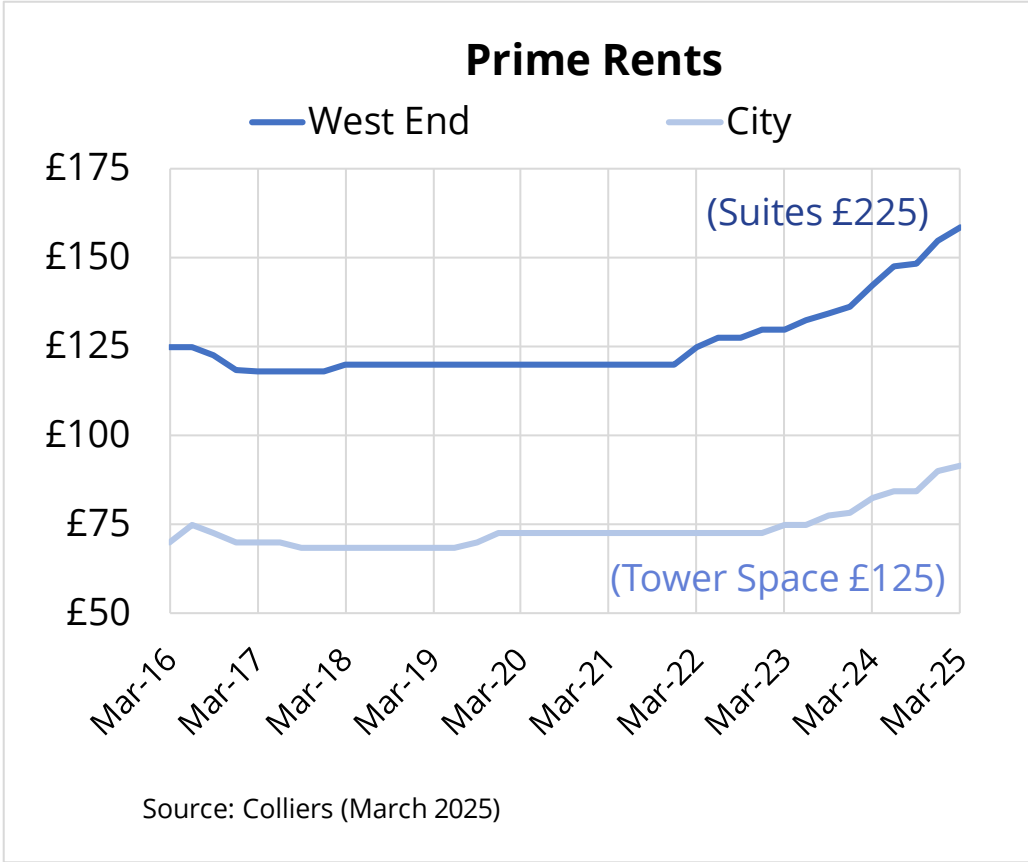
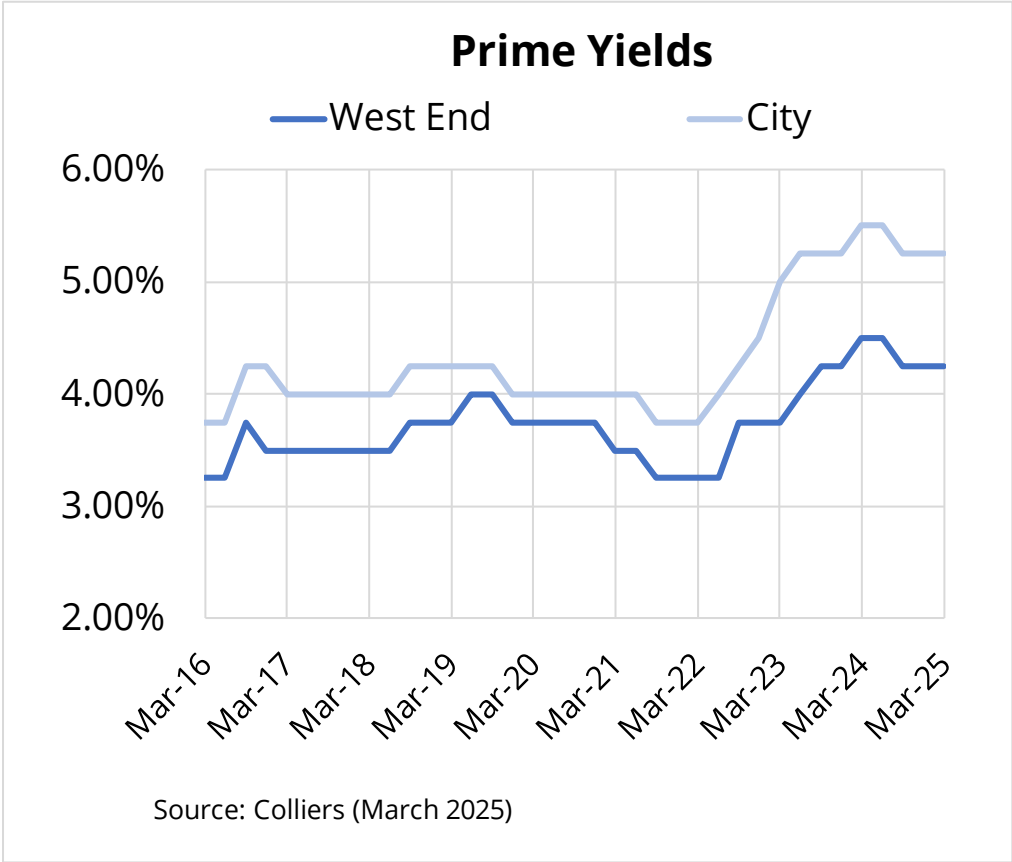
# Investors reticent. Buyer/seller expectations mismatched.

## Rental growth still evident



Investors still uncertain about office. Buyer/seller expectations mismatched.

# Rental growth still evident



# Sector specific observations- an upside for the City of London?

## Tariffs impacts - offices

### 'Anti-Coercion Instrument'

*"Economic coercion" refers to a situation where a third country seeks to pressure the European Union or a Member State into making a particular choice by applying, or threatening to apply, measures affecting trade or investment."*

- This would allow the EU to :
  - *restrict 'Big Tech' through digital competition rules (Digital Services Act) and restricting intellectual property rights*
  - *restrict US access to its financial services market through services taxation and business licensing*
  - *ban American energy and consultancy firms from EU public contracts through its EU International Procurement Instrument*
- Agreed in response to Chinese actions against Lithuania in response to Lithuanian complaints of Chinese dumping.

**P** Politico Europe · 1d

### EU agonizes over using its trade 'bazooka' to hit back at Trump's mega tariff

As the European Commission plans levies of up to 25 percent on many exports from ...







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