UK Commercial Property – Metrics & Momentum

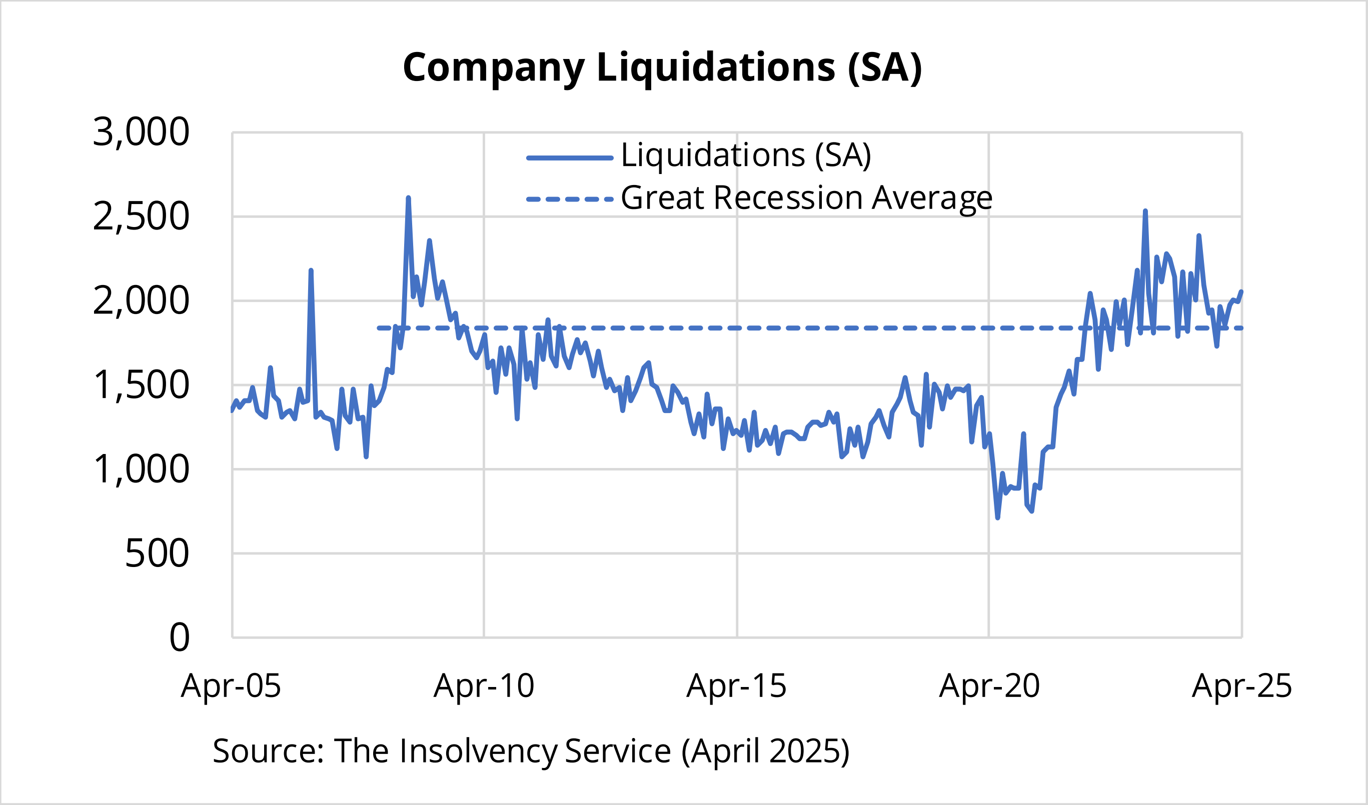
Dr Walter Boettcher, Head of Research Colliers
Professional Conferences

Failures at Global Financial Crisis level

Company insolvencies

Creative destruction?

Cyclical renewal or administrative neglect?



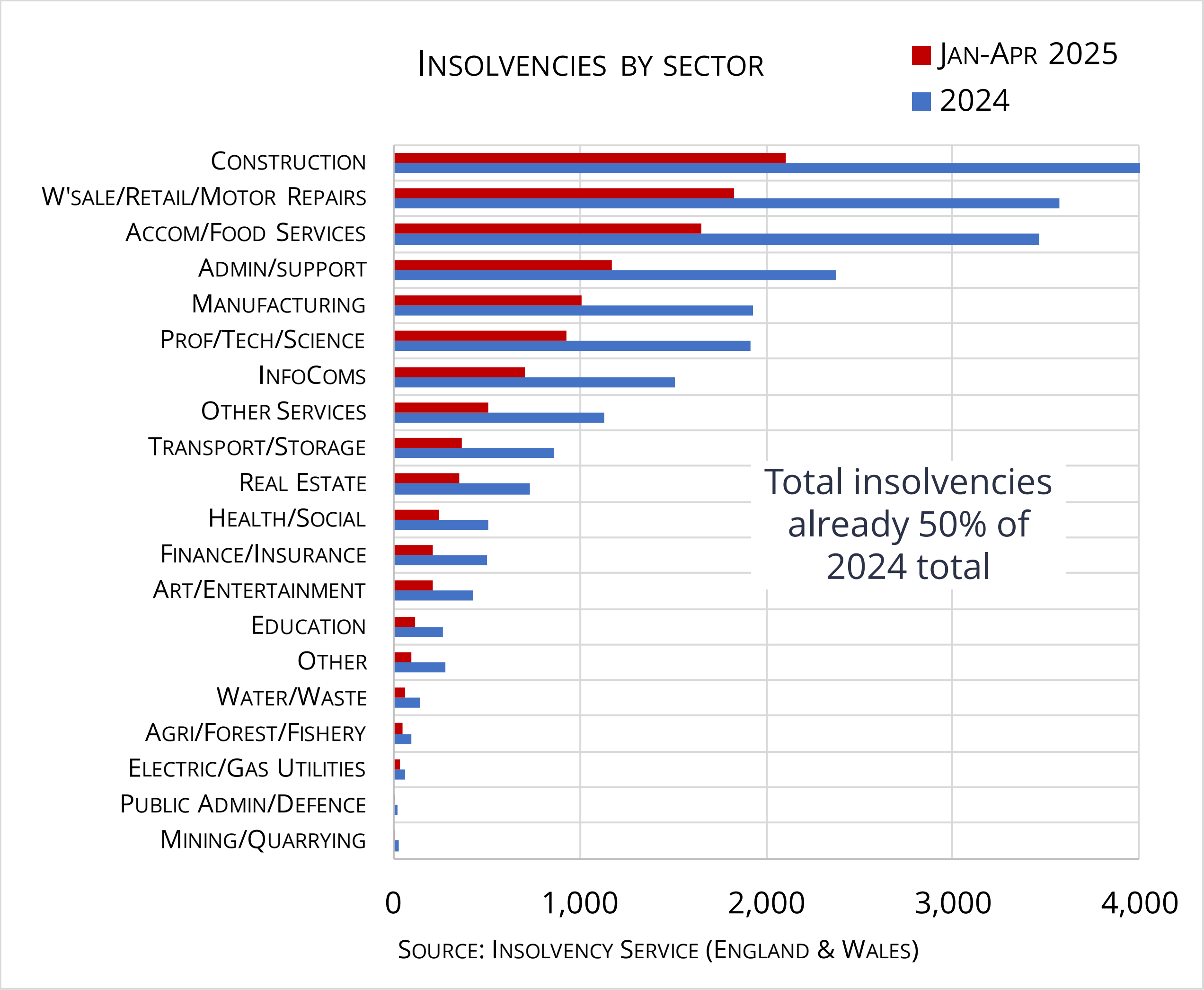
Source: The Insolvency Service (April 2025)

Failures at Global Financial Crisis level

Insolvencies

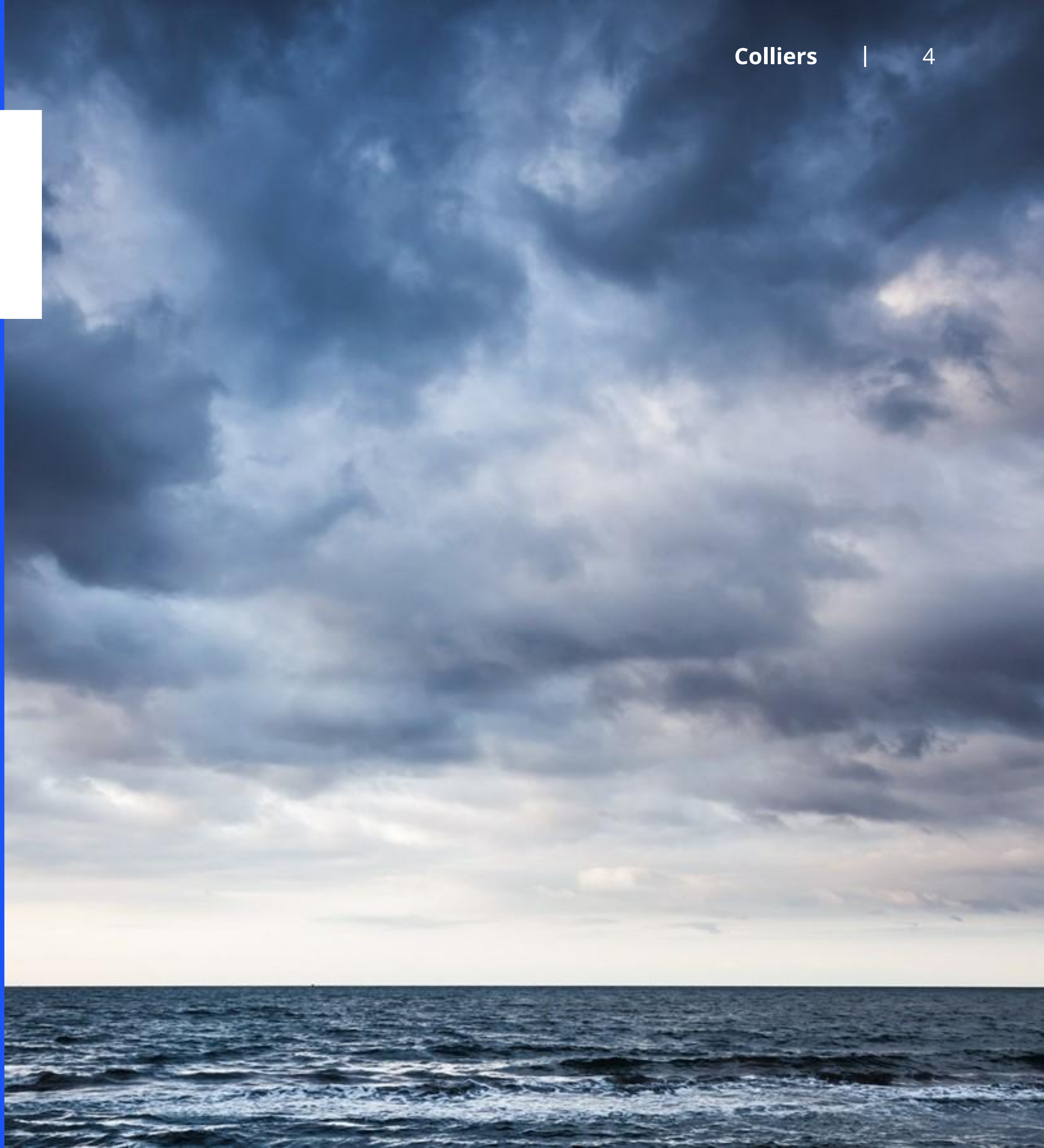
Creative destruction?

Cyclical renewal or fiscal policy malpractice?



Agenda

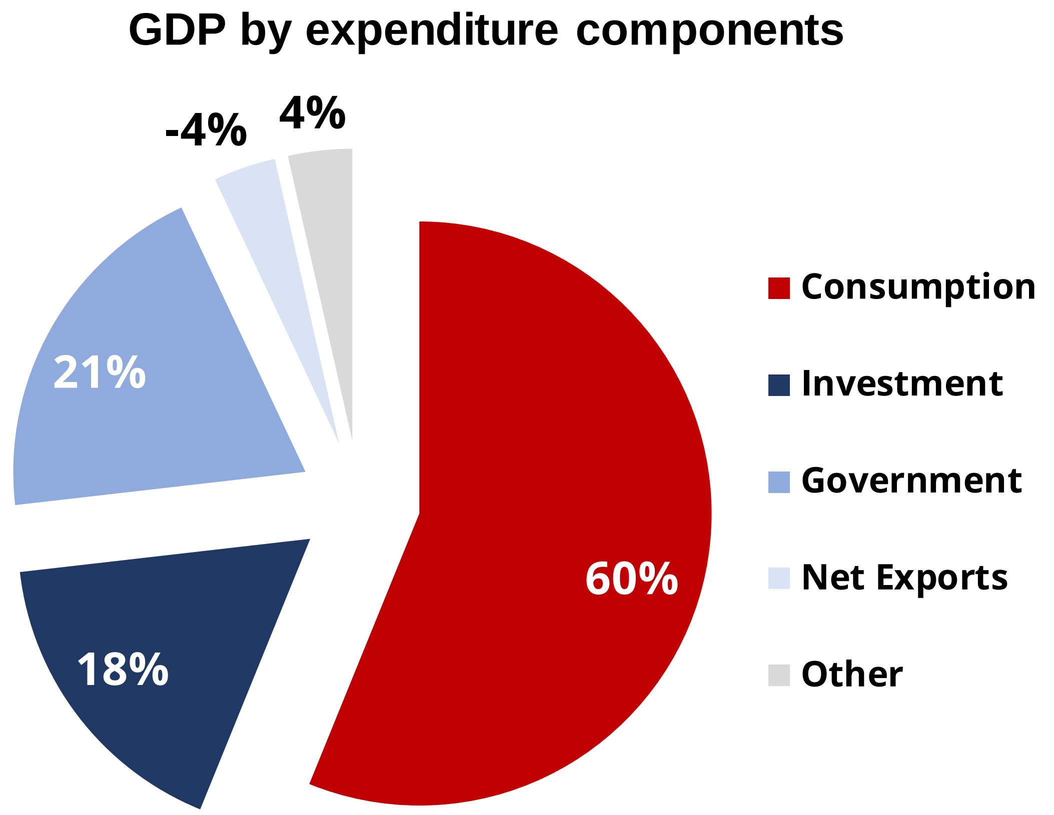
1 A few economic considerations
2 Retail sector performance
3 Industrial sector performance
4 Office sector performance
5 Q&A



GDP = C + I + G + (Net Exports)

GDP components

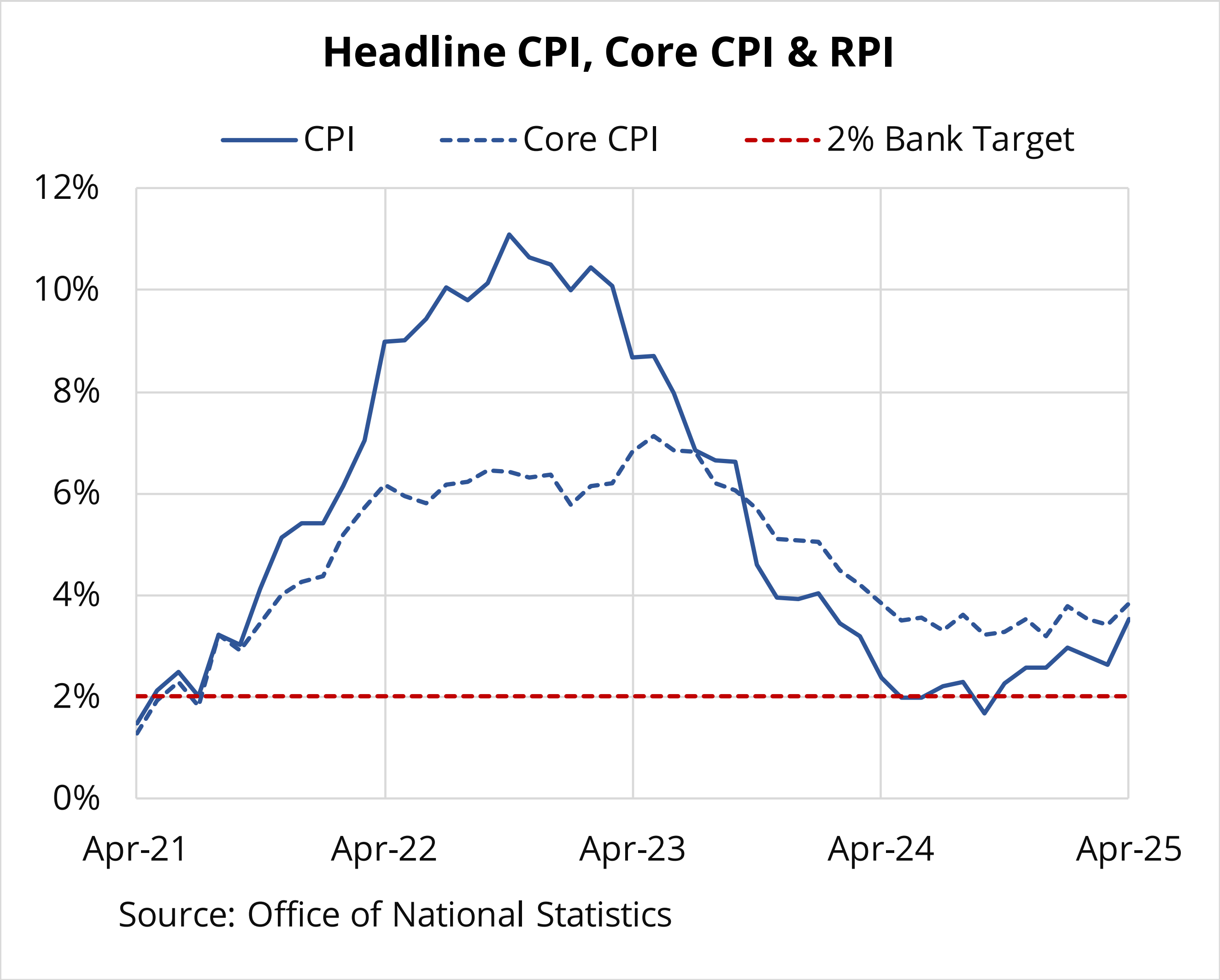
- **Consumption** - key driver of GDP growth
    - Disposable income squeezed
    - Household costs (energy, rent)
    - Mortgage & debt costs
    - Savings rate (11.1%)
- **Investment** – business uncertainty
    - Working capital eroded by taxes
- **Government** – consumption & investment
    - borrowing 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%)



Source: ONS (Q1 2025)

Down but not out!

Inflation



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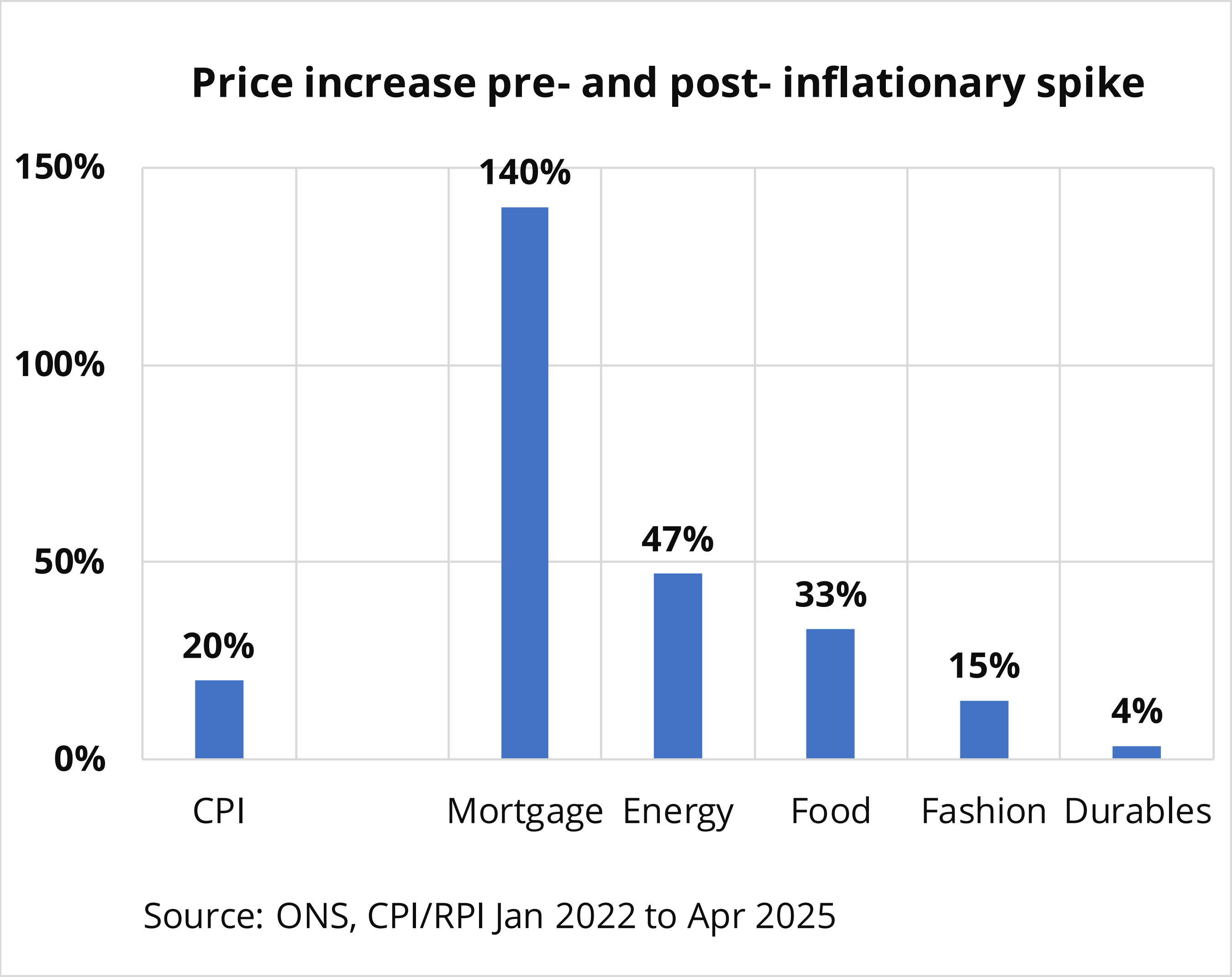
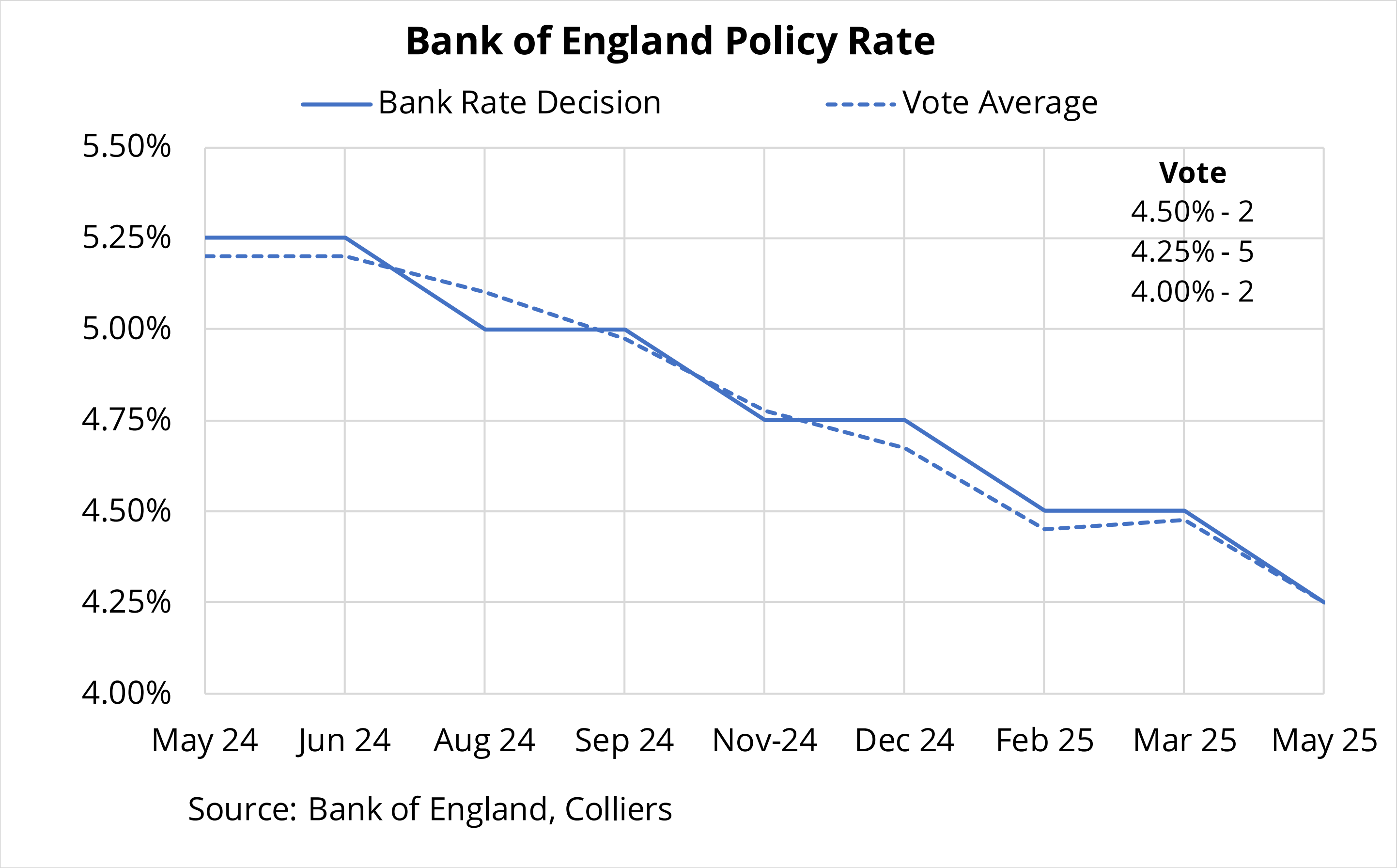


Monetary policy accommodating fiscal tightening

Interest rates



Monetary policy accommodating fiscal tightening

Interest rates

2025 Forecast	HMT Consensus	Market	OE	CE	BarCap	JP Morgan
Bank Rate	3.86%		3.75%	3.75%	3.50%	3.25%
GDP	1.0%		1.2%	1.0%	0.5%	1.1%
CPI	3.0%		2.9%	3.2%	2.9%	3.0%
Source: HMT Consensus Forecasts (*New), Capital Economics, Oxford Economics						

2026 Forecast	HMT Consensus	Market	OE	CE	BarCap	JP Morgan
Bank Rate	3.56%		3.00%	3.50%	3.50%	3.00%
GDP	1.1%		1.02%	1.2%	1.3%	0.9%
CPI	2.3%		2.4%	2.4%	2.0%	2.3%
Source: HMT Consensus Forecasts 1st-16th May 2025 (*New), Capital Economics & Oxford Economics (27 May 2025)						

Victims of their own hubris?

Government fiscal policies

August 2024
Election uncertainty aggravated by 'Black Hole' rhetoric

October 2024
Budget
Lack of business rates reform

April 25
NI, NMW & Employment Rights announced

April 25
NI, NMW and Employment rights take effect

Consequences

Business and household confidence down

Employers (especially SMEs) impacted. Working capital impaired. Company liquidations up

Consumers wage expectations diminished (except public sector)

New taxes in Autumn Budget

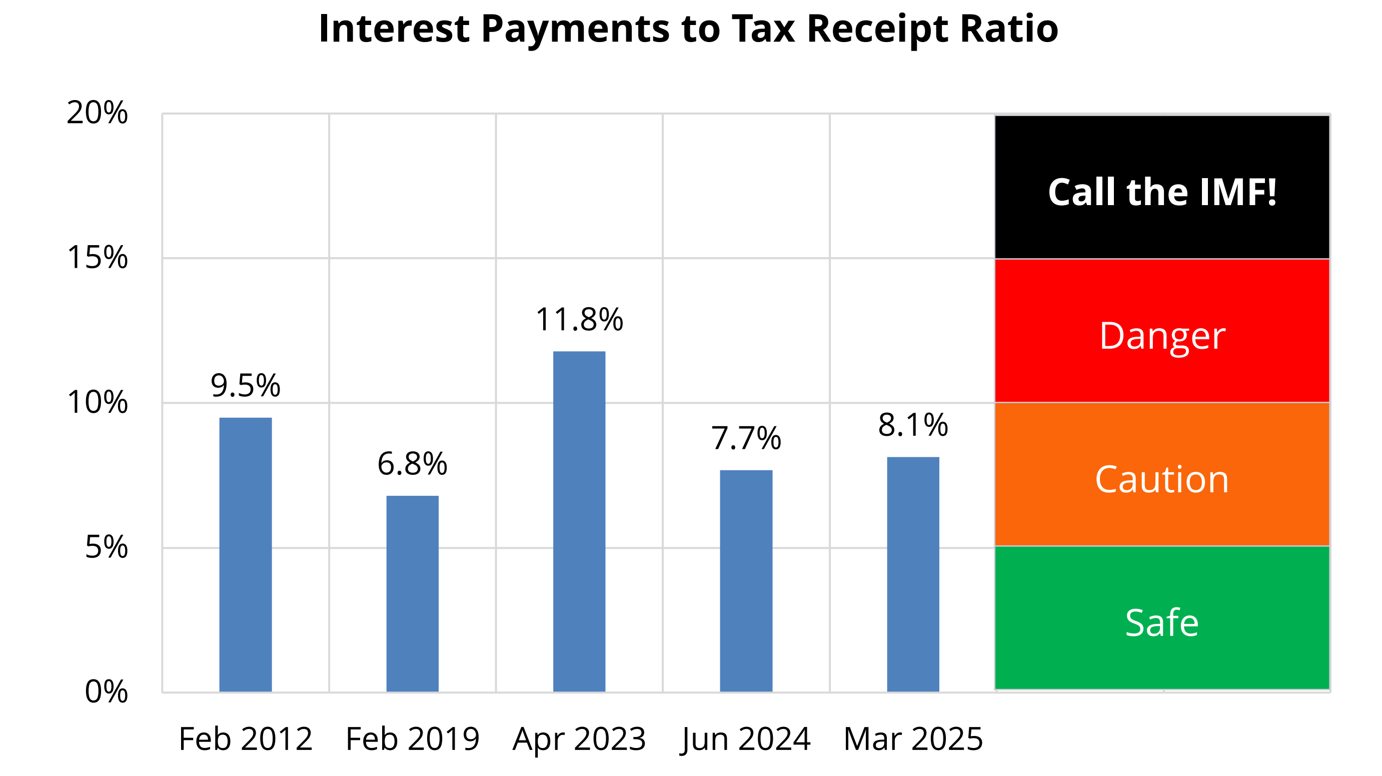
£9.9bn fiscal headroom down to £7.7bn already due to rate rises

Spring Budget Statement

Options	
Hope for the best?	Rely on **optimistic** OBR forecast based on planning reform and housebuilding targets being met
Increase taxes?	**Increasingly likely if you believe what you read in the press**
Cut spending?	Later in the budget horizon: £4.8bn welfare cut; £3.6bn departmental cuts
Pivot to fiscal stimulus?	Possibly. Defense spending may pave the way.
Print money? QE2?	Option of last resort!?

Spring Budget announcement imminent

Fiscal headroom and policy



Source: ONS

Purchasing manager indices weakened by UK fiscal policy and tariffs

S&P Global commentary

"Job cutting remains worryingly aggressive, especially in manufacturing, as concerns about weak demand have been exacerbated by the rise in staff costs linked to the National Insurance and minimum wage changes that came into effect in April".

Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
23rd May 2025

Update (22nd May):
Composite PMI balance rose to 50.3 from 48.5.
Business services (50.9).
Manufacturing output (46.4) – 19 month low
Construction (47.9)
Jobs (44.7)

Looking ahead

Key dates to watch

11th June: UK Spending Review – departmental budgets

18th June: UK CPI

19th June: Bank of England meeting

20th June: Retail sales

9th July: Latest EU tariff deadline

12th August: Expiry of US – China tariff reductions

Autumn Budget

Occupational

Industrial markets

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

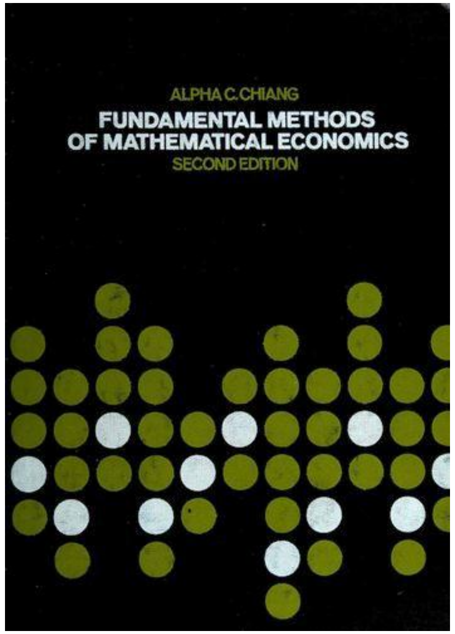
China's vast exports in 2024 exceeded its imports on a scale seldom seen anywhere except during or immediately after the two world wars.

It’s complicated. Trade has changed! It’s about business ecosytems!

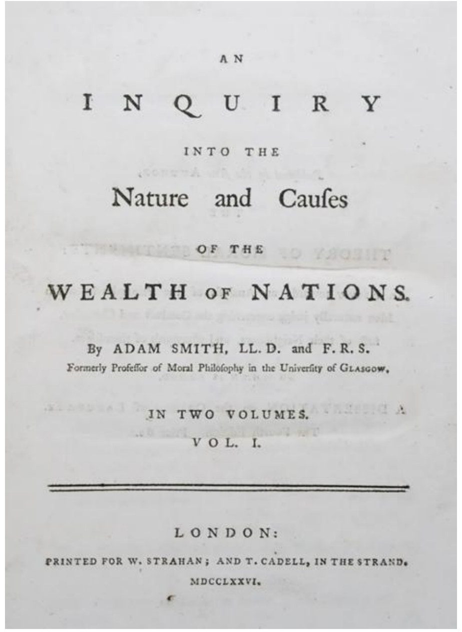
The impact of tariffs

Consumption vs savings	$U = \int_0^{+\infty} \left(\frac{C_t^{1-1/\epsilon_i} - 1}{1-1/\epsilon_i} - \frac{N_t^{1+1/\epsilon_\ell}}{1+1/\epsilon_\ell} \right) e^{-rt} dt,$
Preference for imports	$C_t = \left(\omega_H^{1/\epsilon_m} C_{Ht}^{(\epsilon_m-1)/\epsilon_m} + \omega_F^{1/\epsilon_m} C_{Ft}^{(\epsilon_m-1)/\epsilon_m} \right)^{\epsilon_m/(\epsilon_m-1)},$
Price of foreign goods	$P_{Ft} = (1+\tau_t) E_t P_t^*$
Household budget constraint	$\dot{B}_t + \frac{P_{Ht}}{E_t P_t^*} C_{Ht} + (1+\tau_t) C_{Ft} = \frac{W_t N_t}{E_t P_t^*} + Z_t + D_t + rB_t$
Home producer prices	$\pi_t = \hat{\pi} + \alpha \int_t^{+\infty} \left(\frac{W_{t'}}{P_{Ht'}} - 1 \right) e^{-r(t'-t)} dt'$
Demand (foreign & domestic)	$Y_{Ht} = C_{Ht} + [(1+\tau_t^*) S_t]^{-\epsilon_x} M_t^*$
Monetary policy target	$i_t = r + (1-\phi)\hat{\pi} + \phi \pi_t, \quad \phi > 1$

Inflation



Alpha Chaing
Mathematical Economics
1st edition 1967
4th edition 2005



Adam Smith
Trade theory
1st edition 1776
5th edition 1789

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

Another supply chain shock?

Tariffs impacts

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? Evidence of this in UK

EU launches anti-dumping investigation into Chinese tire imports

May 22, 2025 RubberWorld 145 Views

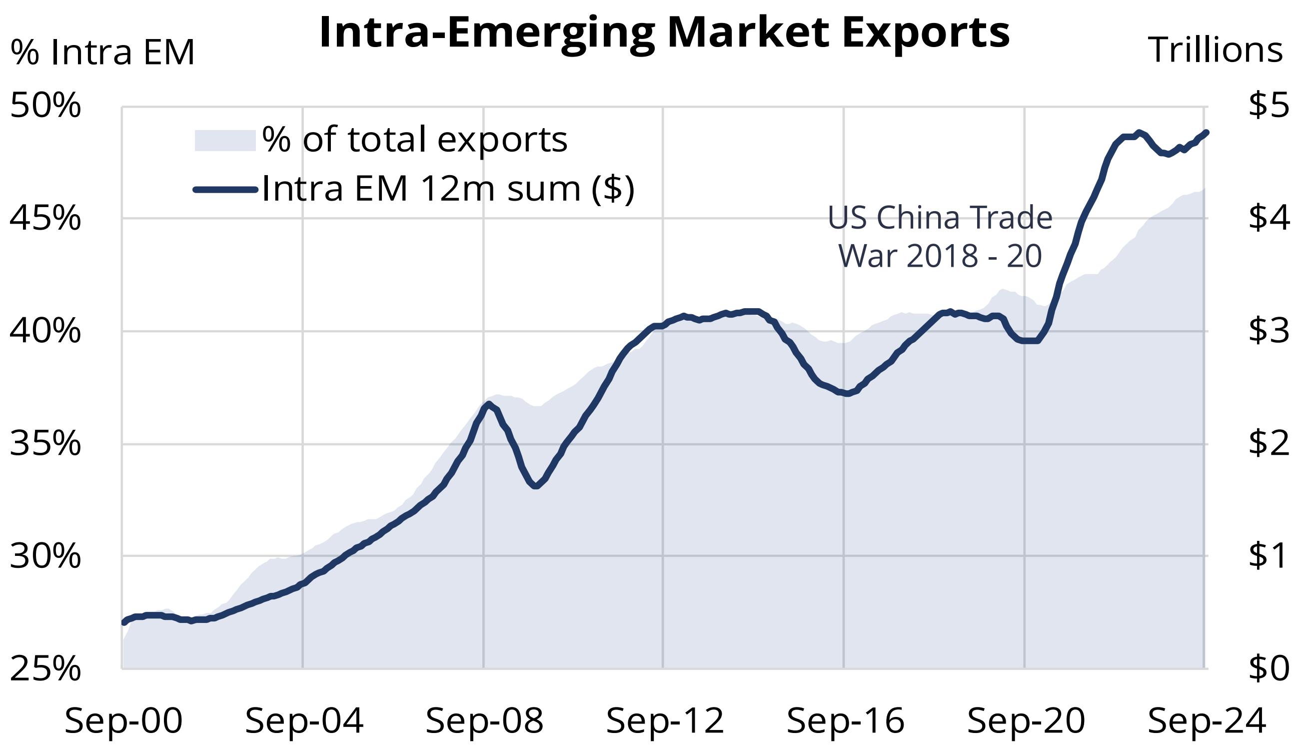
Long-term

- **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
- China investing in more productive capacity, especially in capital goods to compete with western companies in supplying EMs

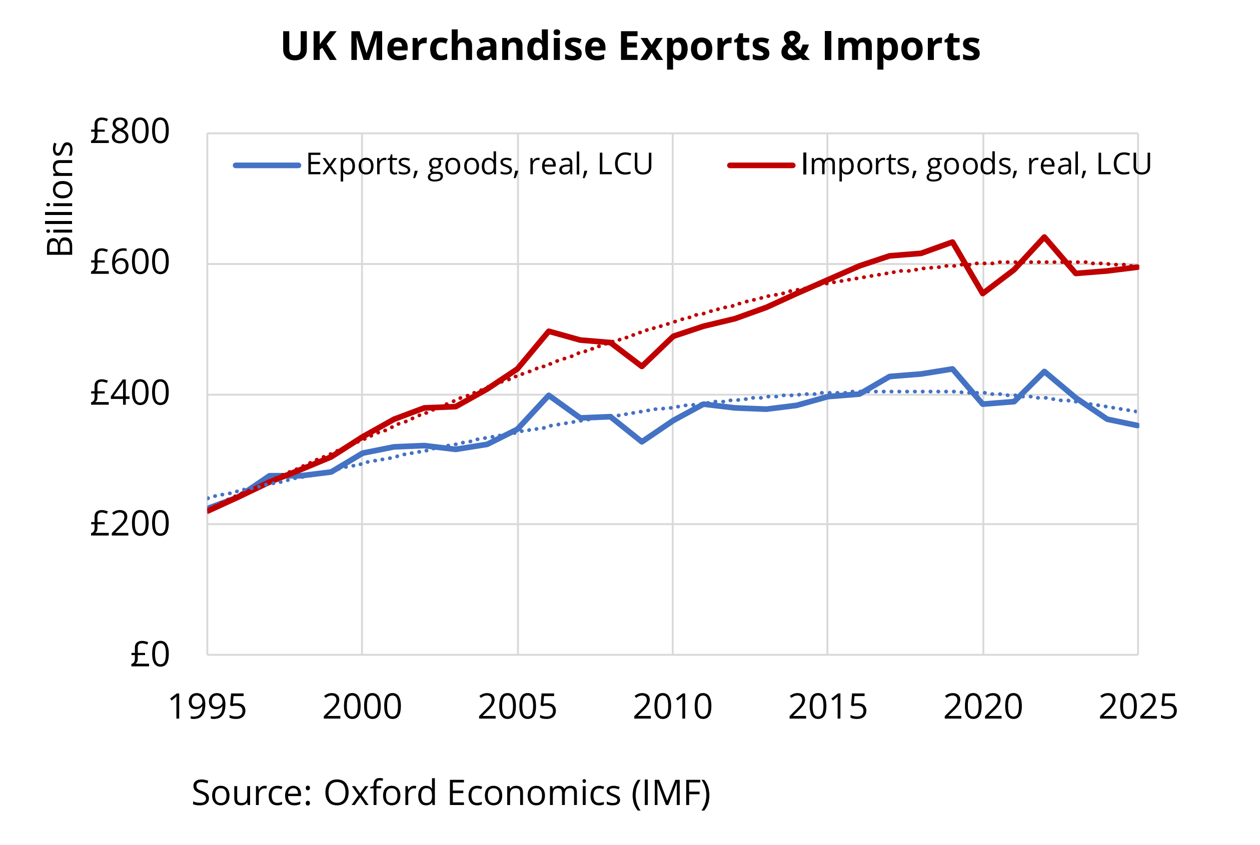


Source: IMF DOT database

Tariffs will undermine intra-developed market trade further

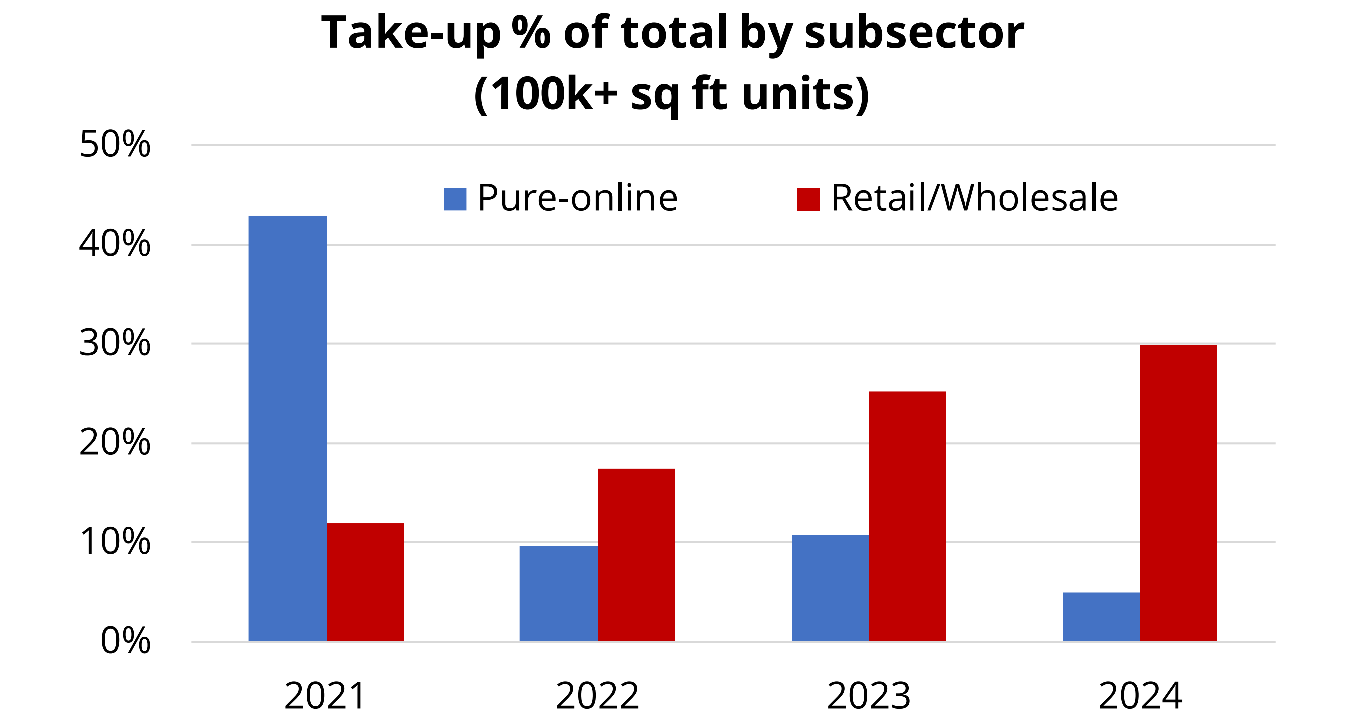
UK merchandise trade already in abeyance

- 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

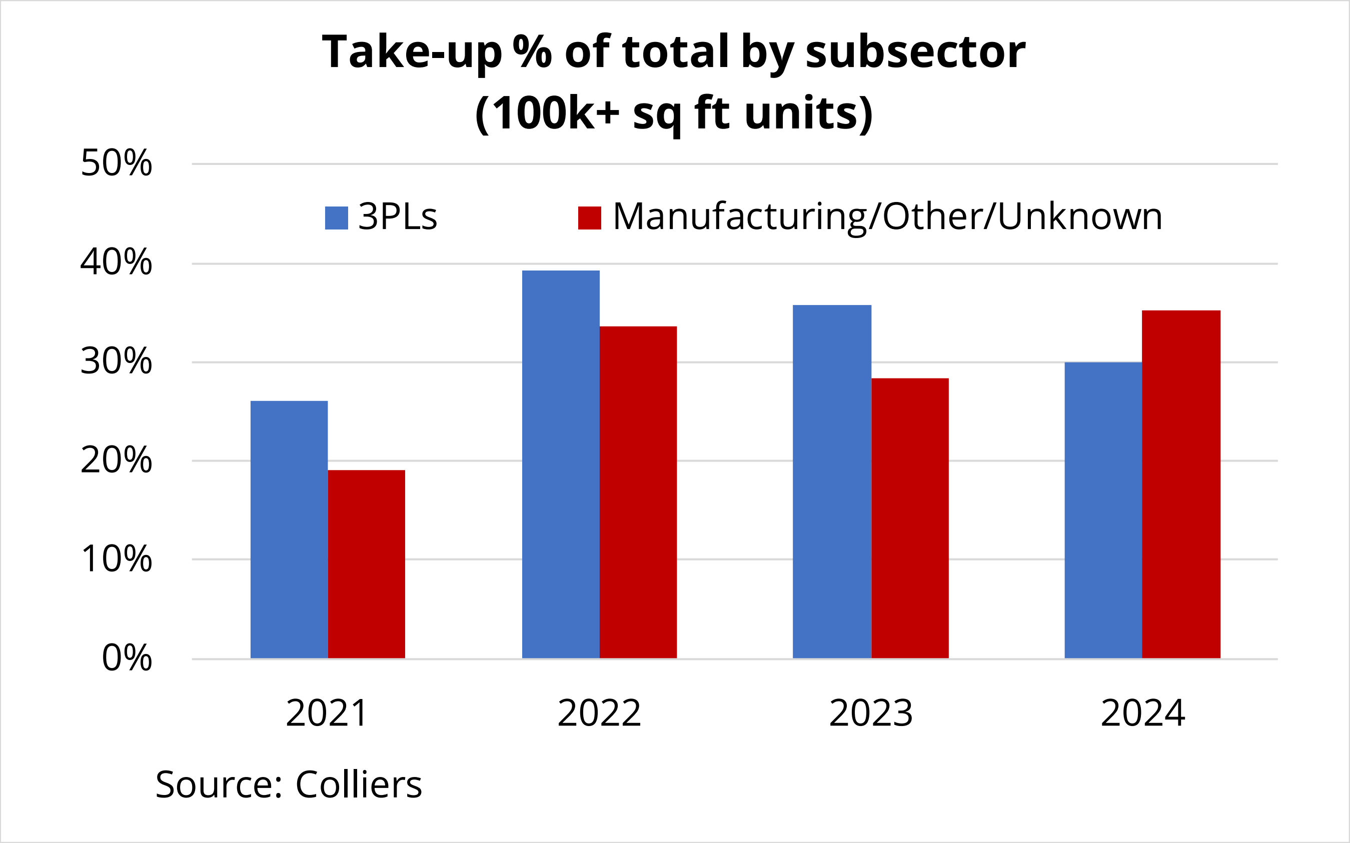
UK logistics market trends



Source: Colliers

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

UK logistics market trends

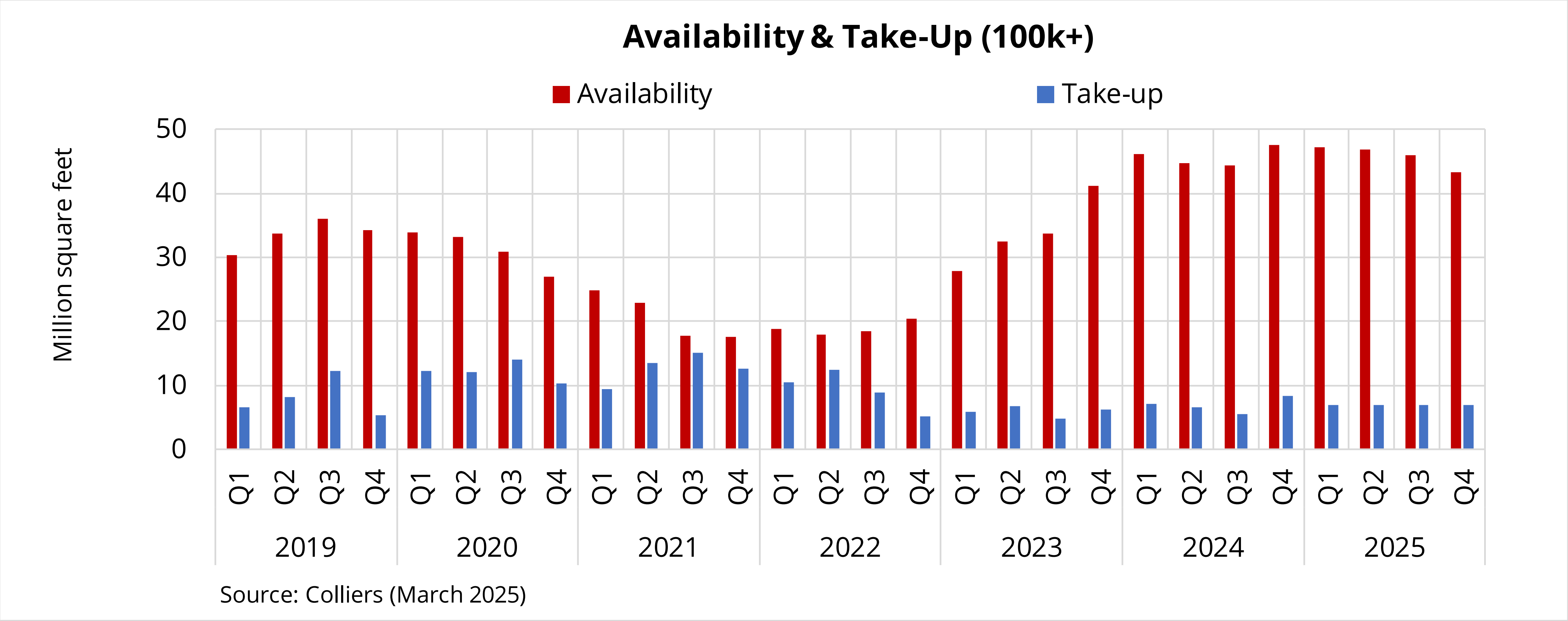


Mergers & Acquisitions (examples)

- 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?



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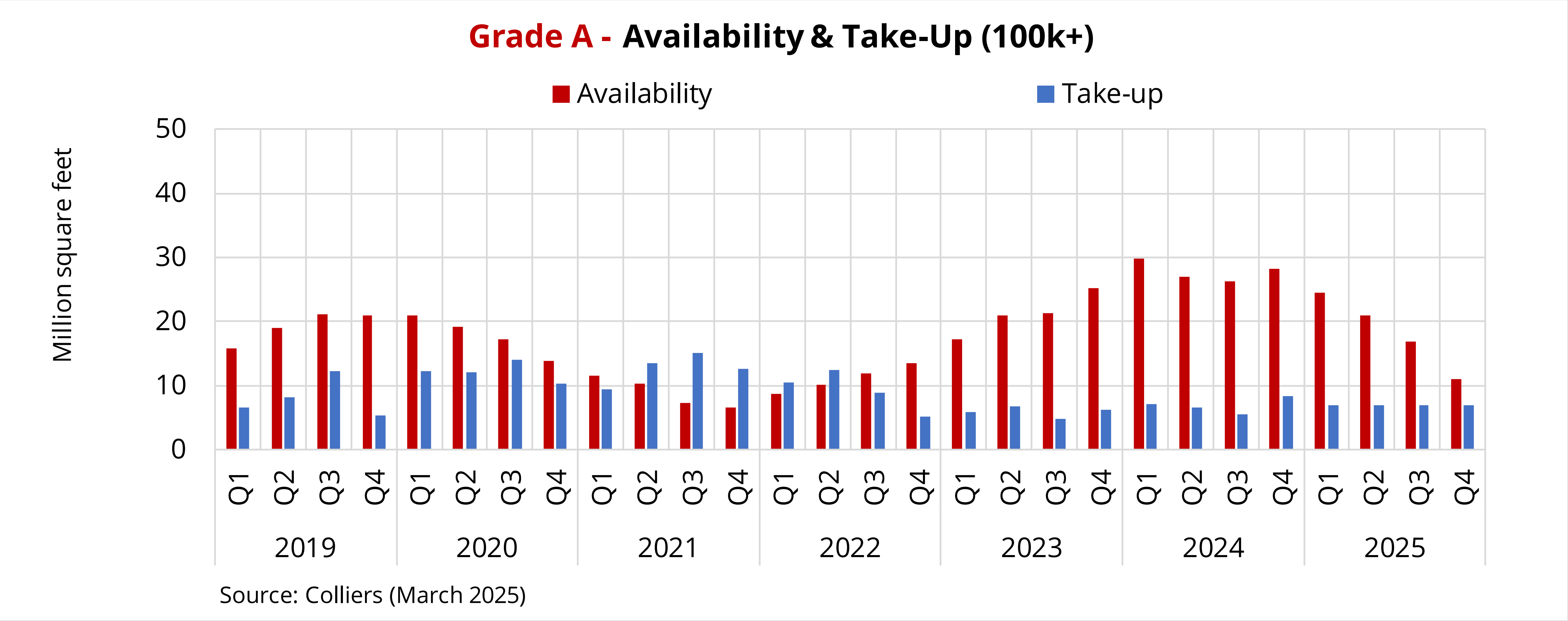
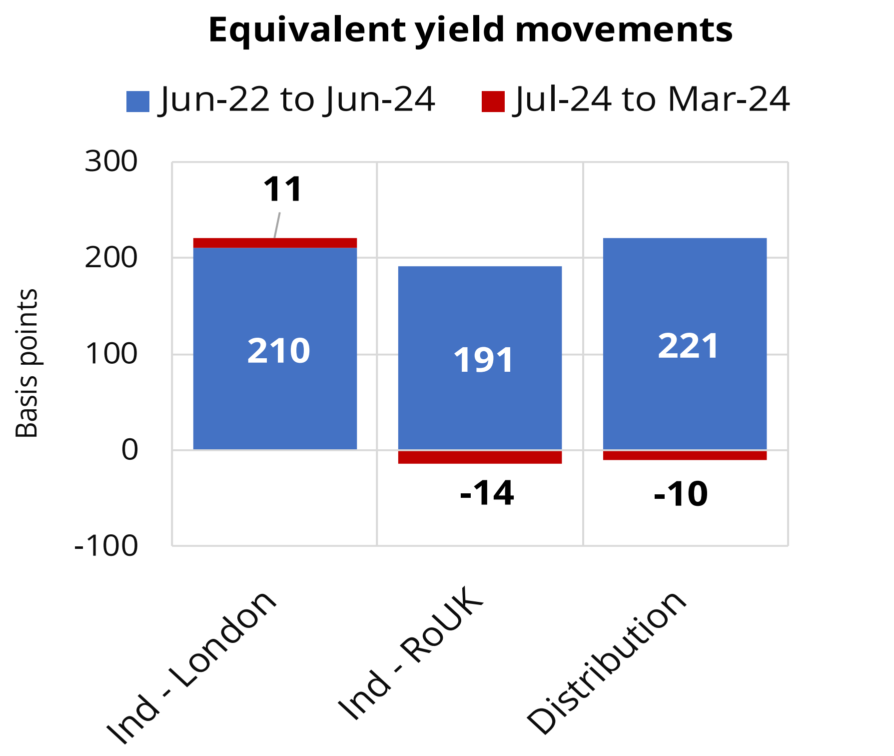
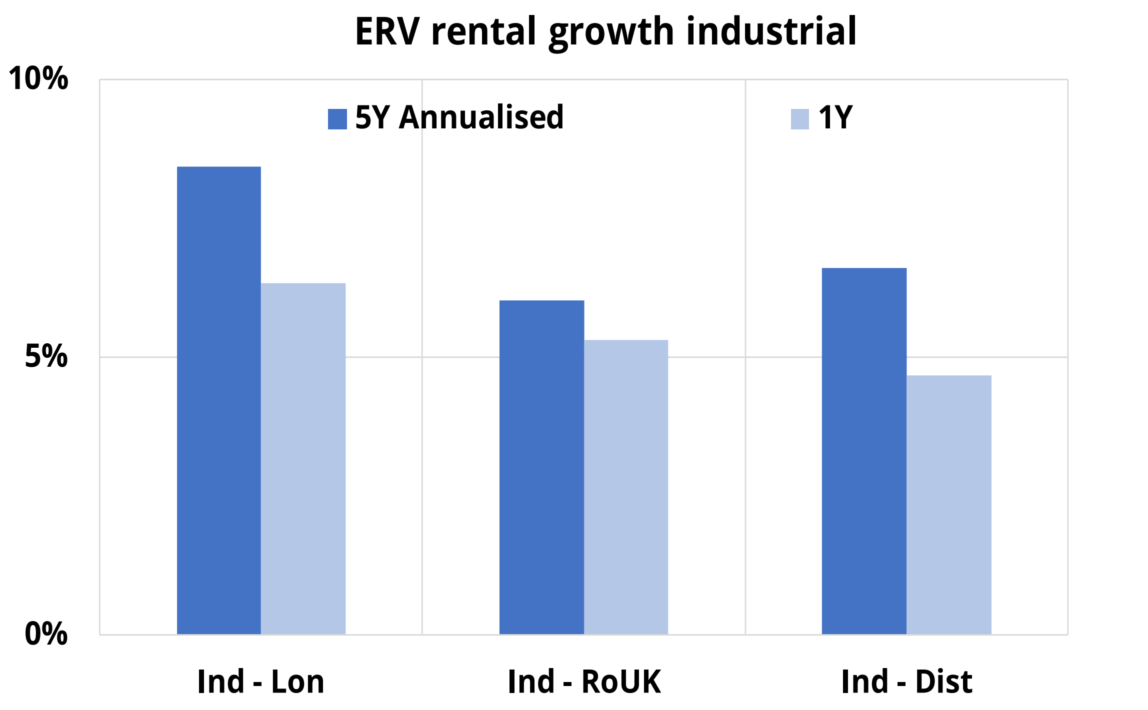


Industrial still attractive to investors

Rental growth still evident



Source: MSCI Monthly Index (March 2025)



Source: MSCI Monthly Index (March 2025)

Power availability is as important as planning permission

A host of other problems

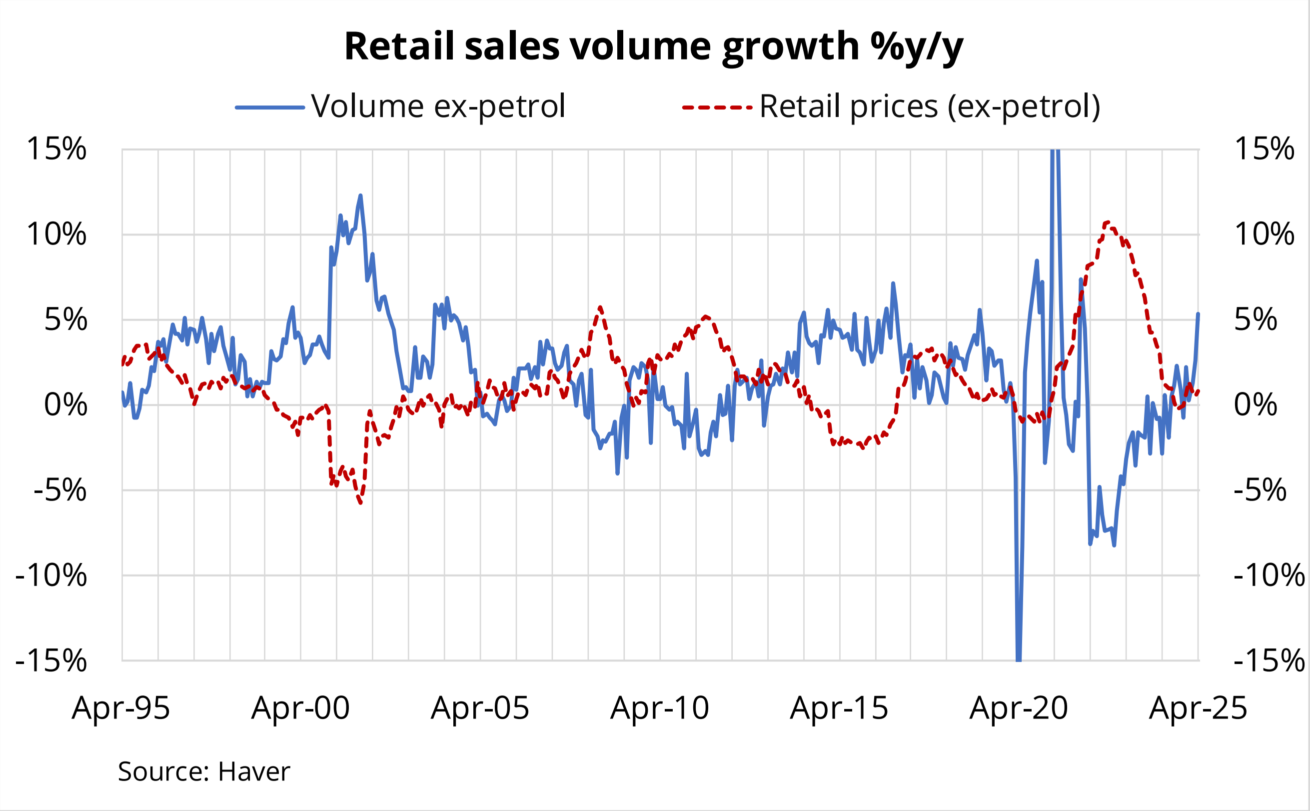
- **Power**
  - ✓ *Grid congestion SE, SW and Scotland*
  - ✓ *Ageing infrastructure*
  - ✓ *Electricity from gas expensive*
  - ✓ *Grid capacity to receive power*
  - ✓ *Capacity hoarding*
- **Road congestion**. Lack of investment in roads/rail to facilitate trunk movements of goods from ports to inland 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

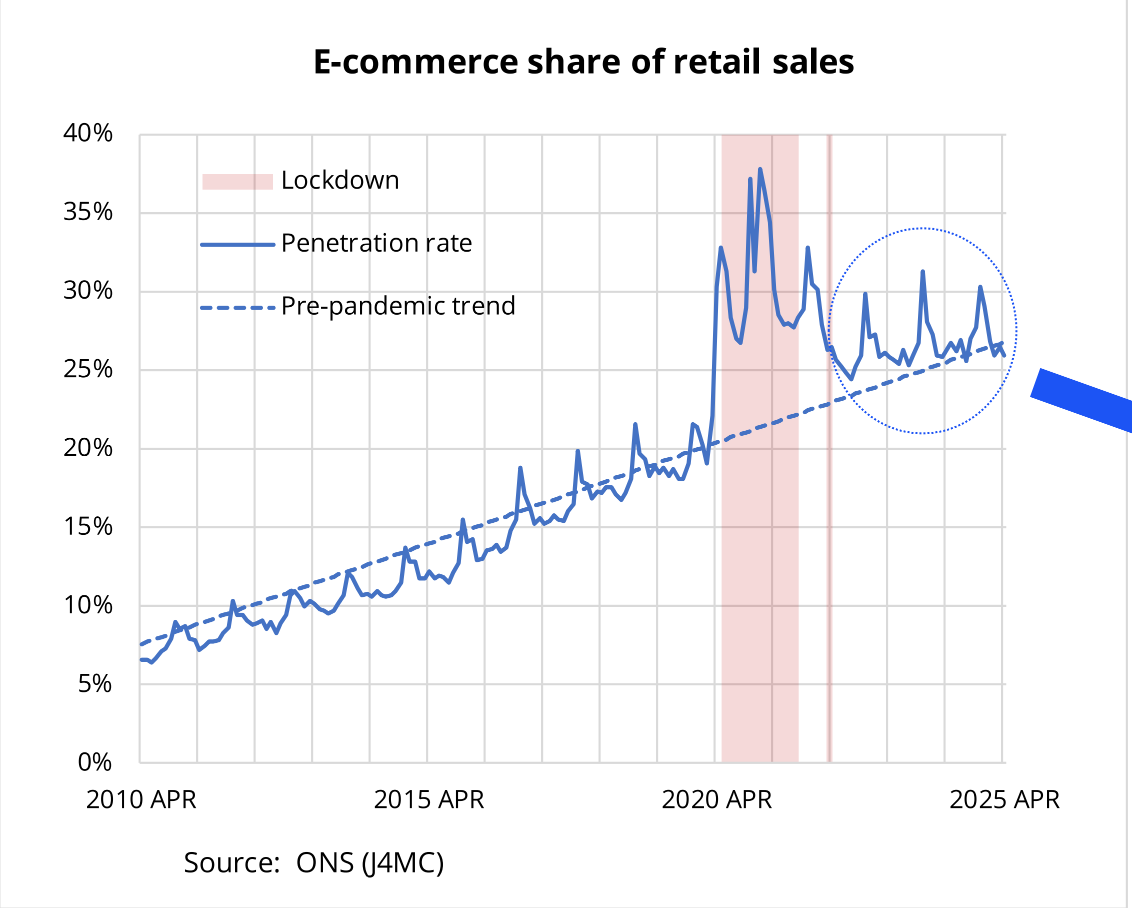
- ✓ ***Correlation -0.77*** *(excluding Covid)*
- ✓ *Prices high*
- ✓ *Consumer confidence low*
- ✓ *Household savings ratio elevated*

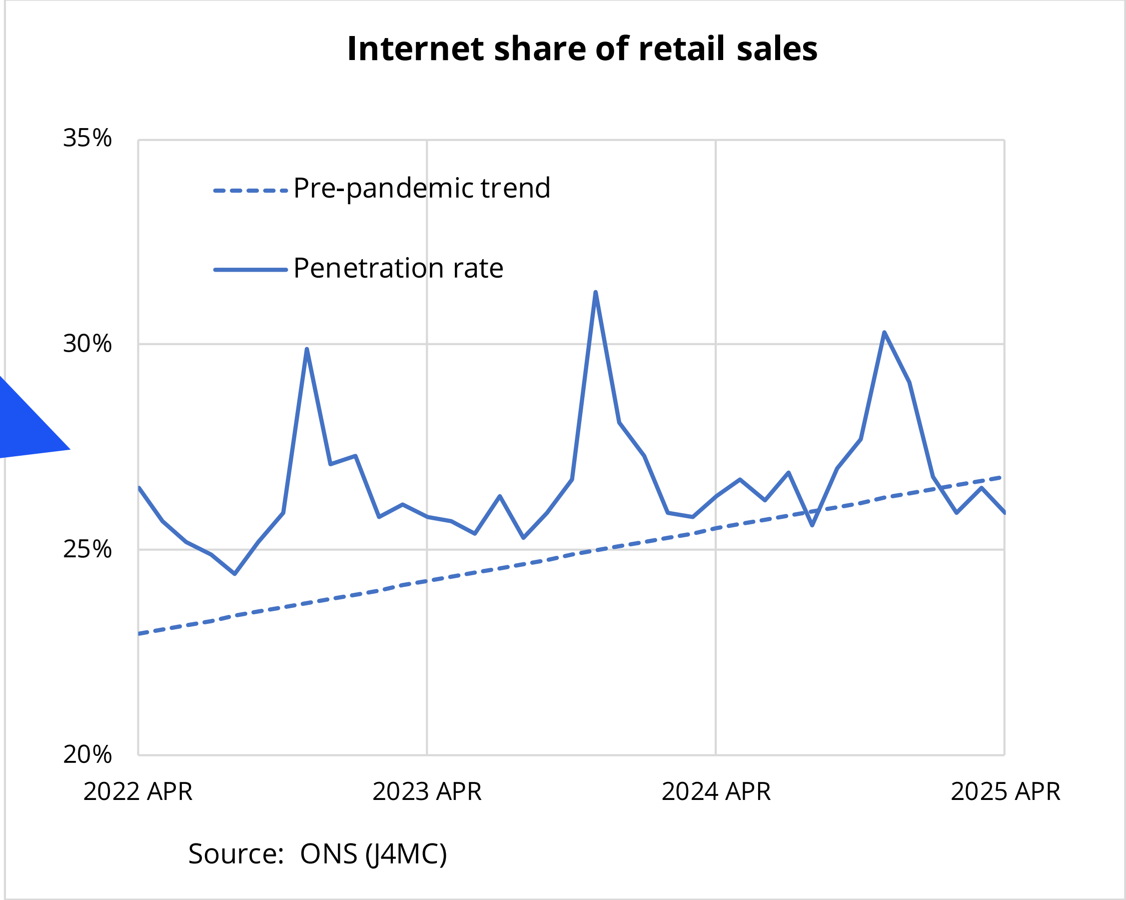
Supply costs up

- ✓ *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?





Squeezed by weak sales and high input costs

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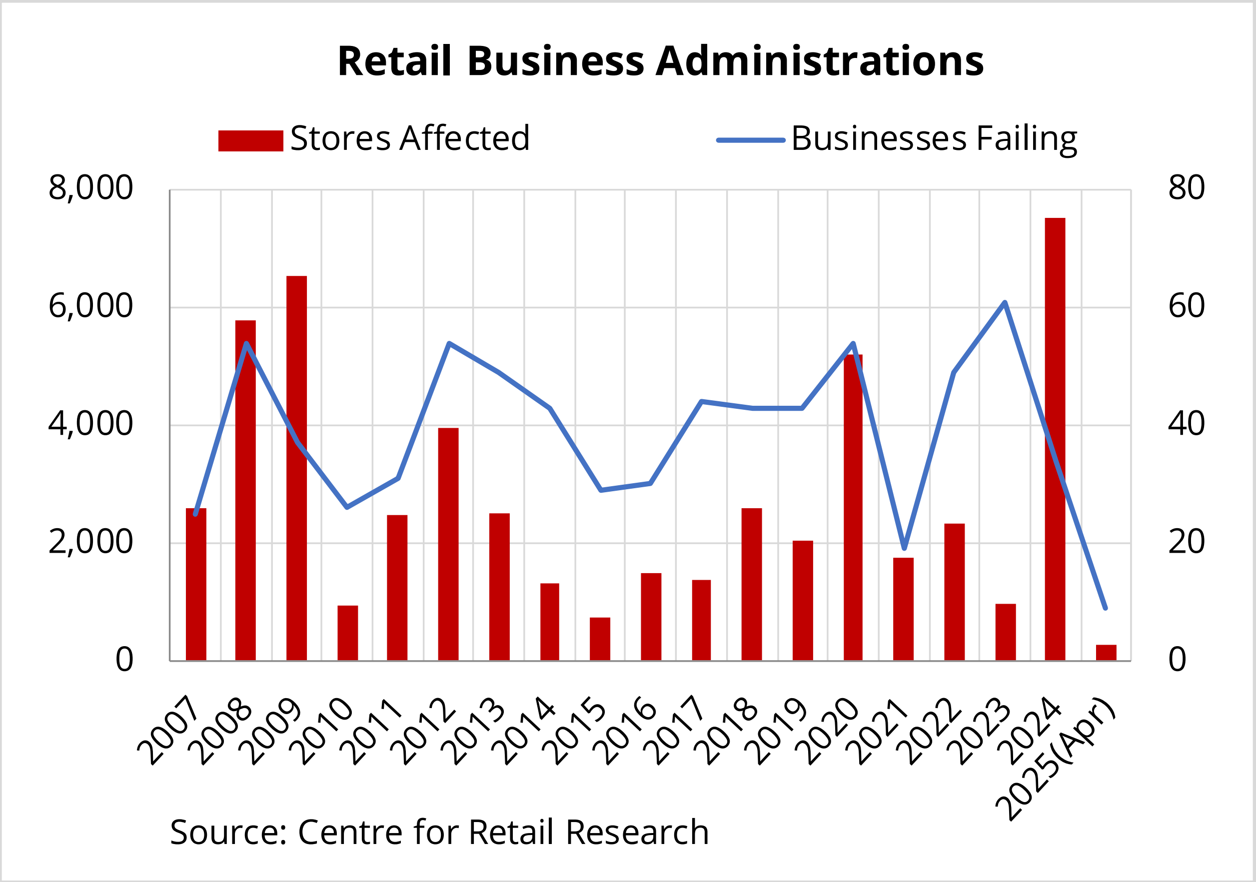
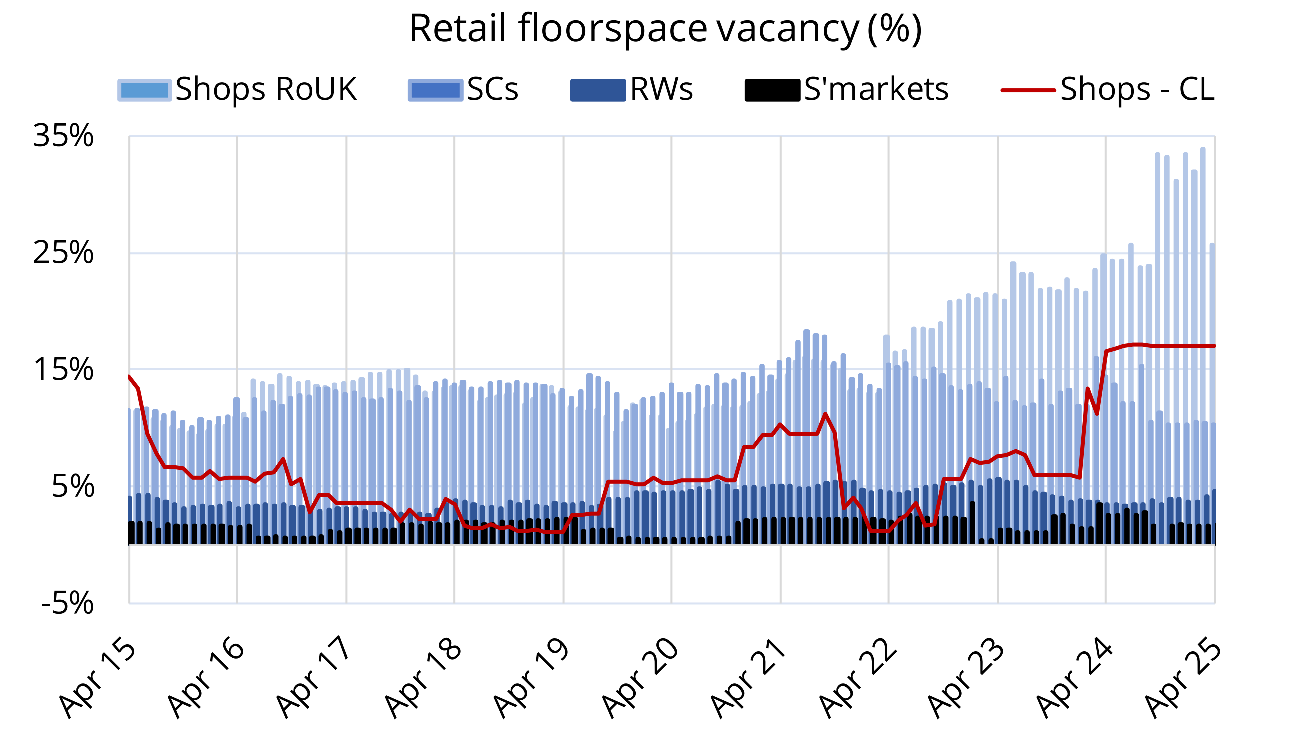


- Property metrics suggest that regional high streets are in the line of fire.
- Regional vacancy rate at over 30%.
- London vacancy rate high over 15% but looks to reflect large amount of redevelopment across all the London High Streets.
- Noteworthy administrations in the retail warehouse sector. But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

Regional high streets most vulnerable to latest government policies

High street vacancies elevated



Source: MSCI Monthly Index (March 2025)

- **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?** <u>Redevelopment has distorted the data.</u>

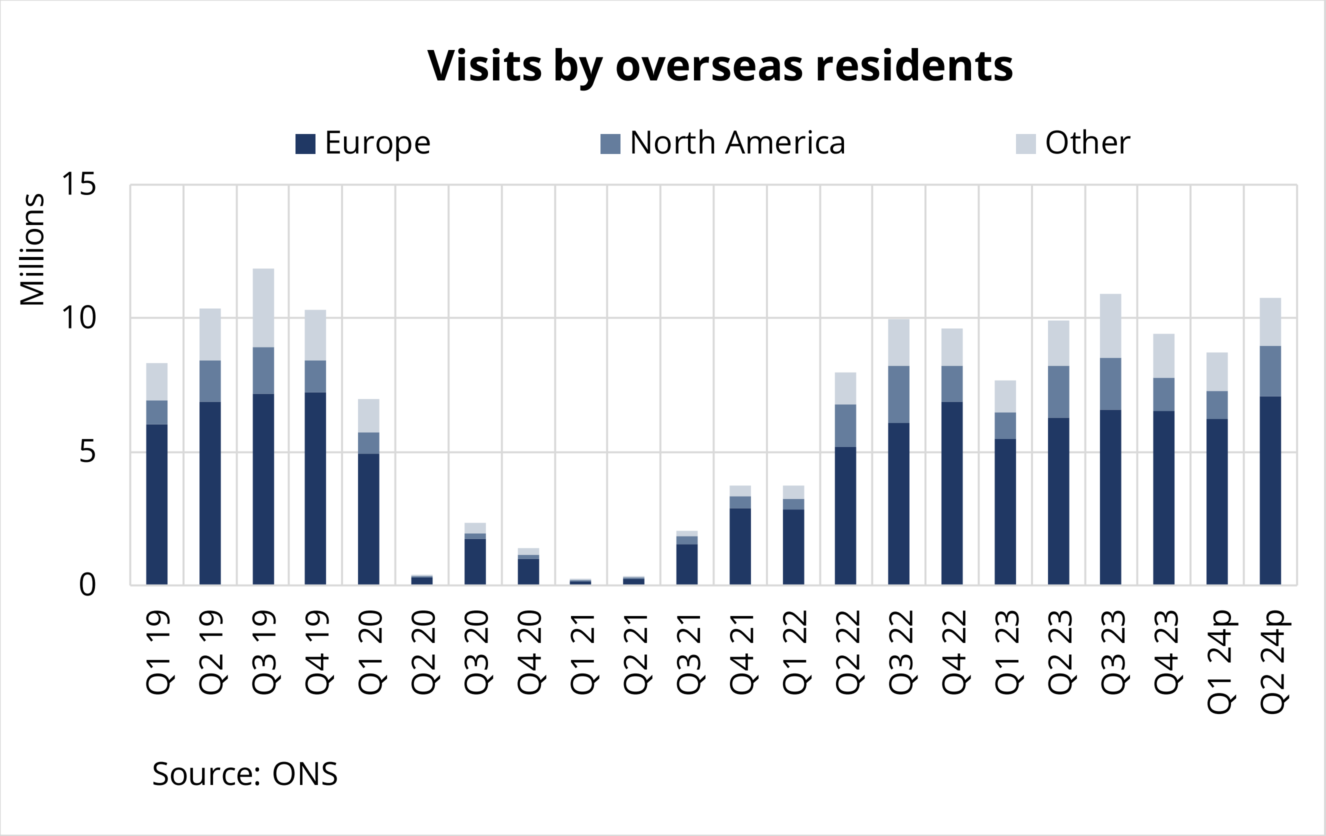
London retail paradigm shift in brands and formats

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

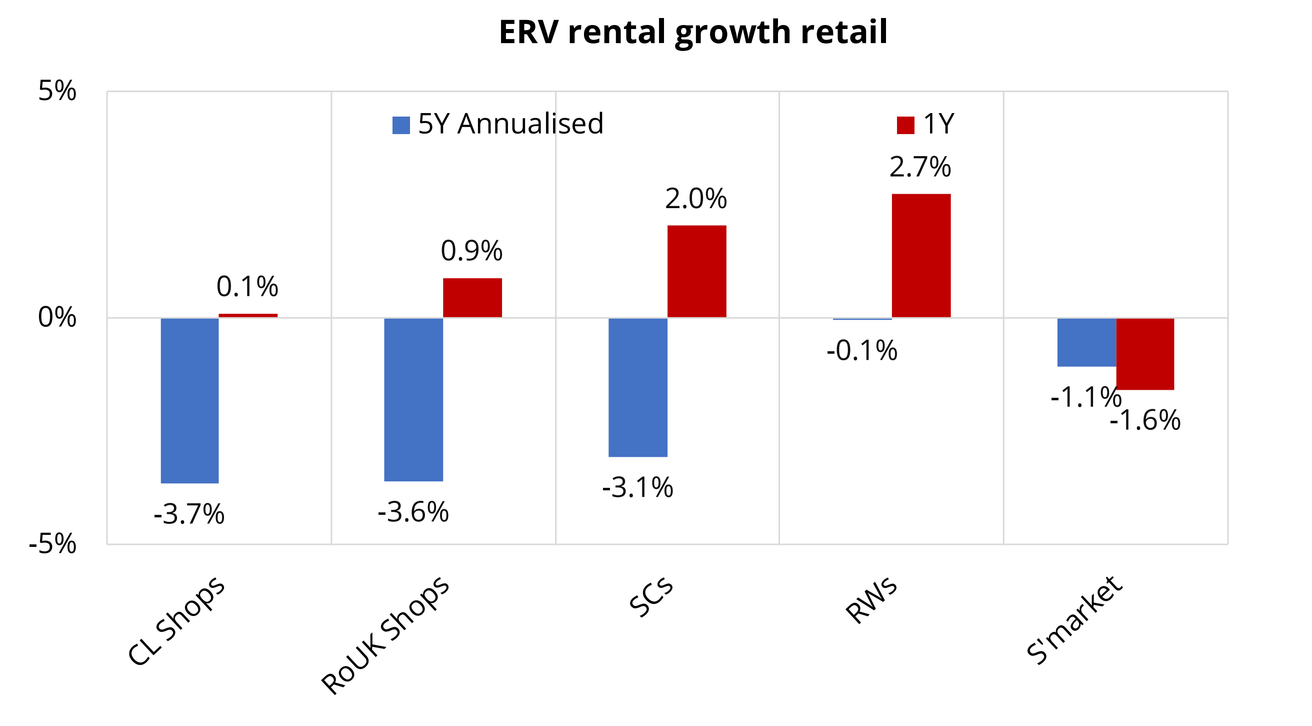
UK tourism recovered but London still missing out



- 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?

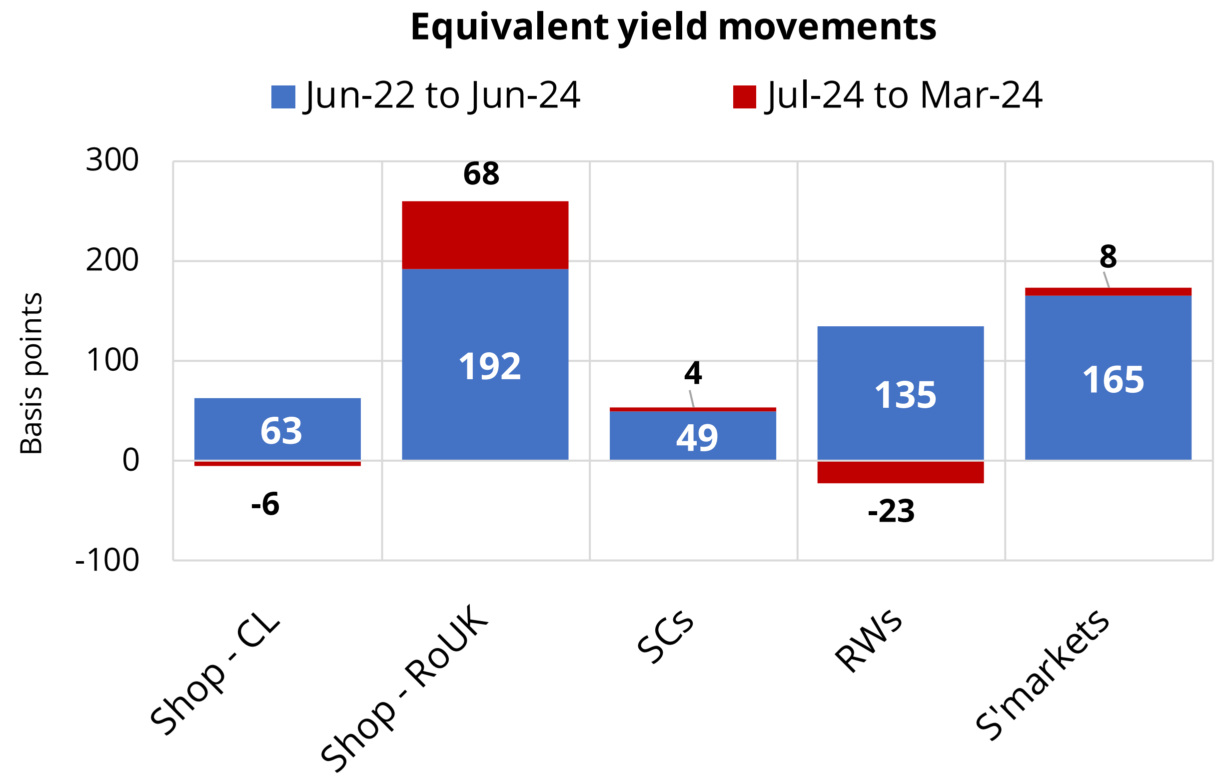


Source: MSCI Monthly Index (April 2025)

- **Supermarkets.** Market bifurcation. Lease extensions and re-gears offered by institutions at a discount to satisfy annuity pressures. Mid-sized operators acquisitive a 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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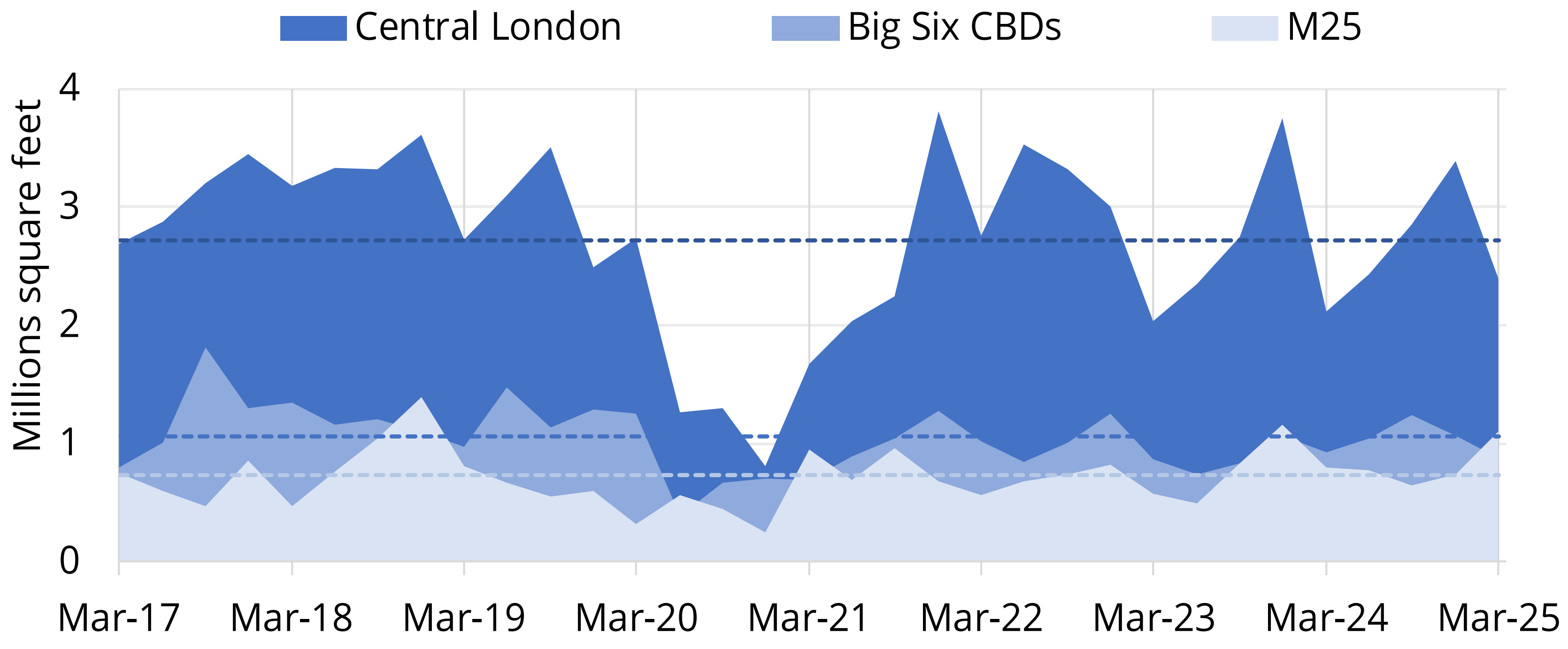
Approved design set to be delivered from 2027 after HSBC moves to City

Occupational

Office markets

Diversity of demand evident across all markets

Leasing demand steady



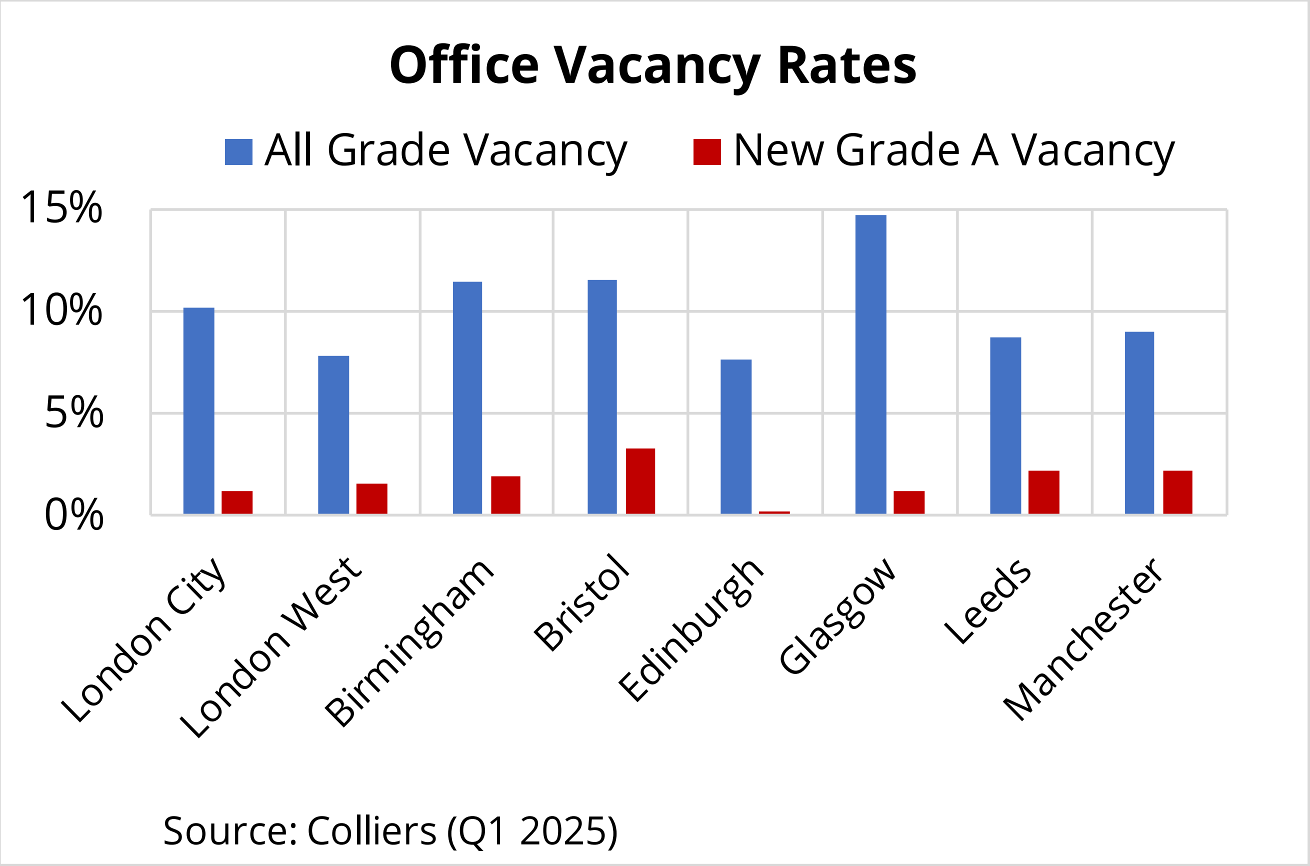
[1]M25 & Regional CBDs forecast
Source: Colliers (March 2025)

- 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

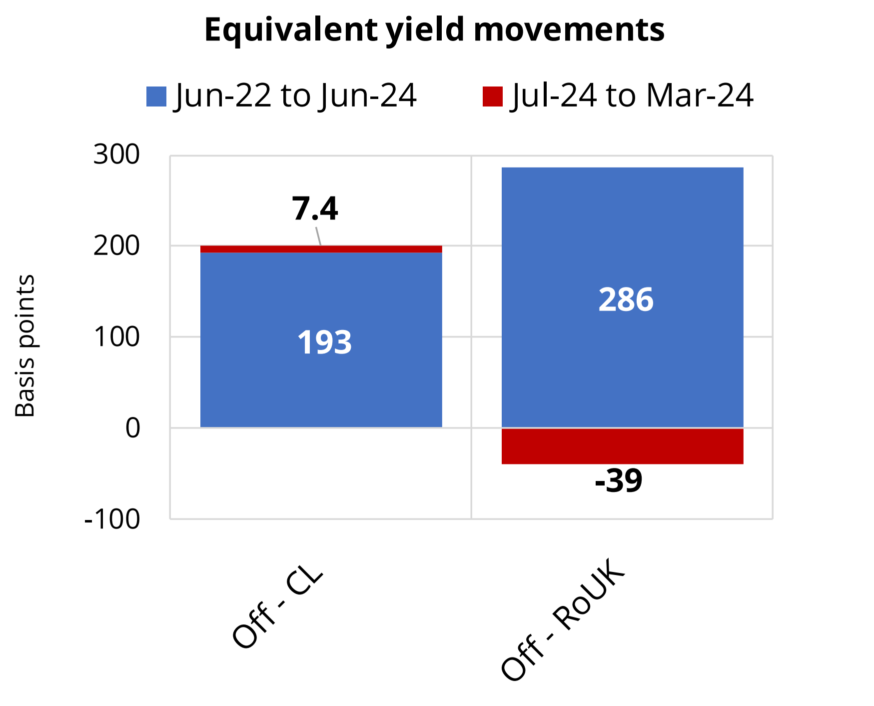
Grade A availability very limited

- 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



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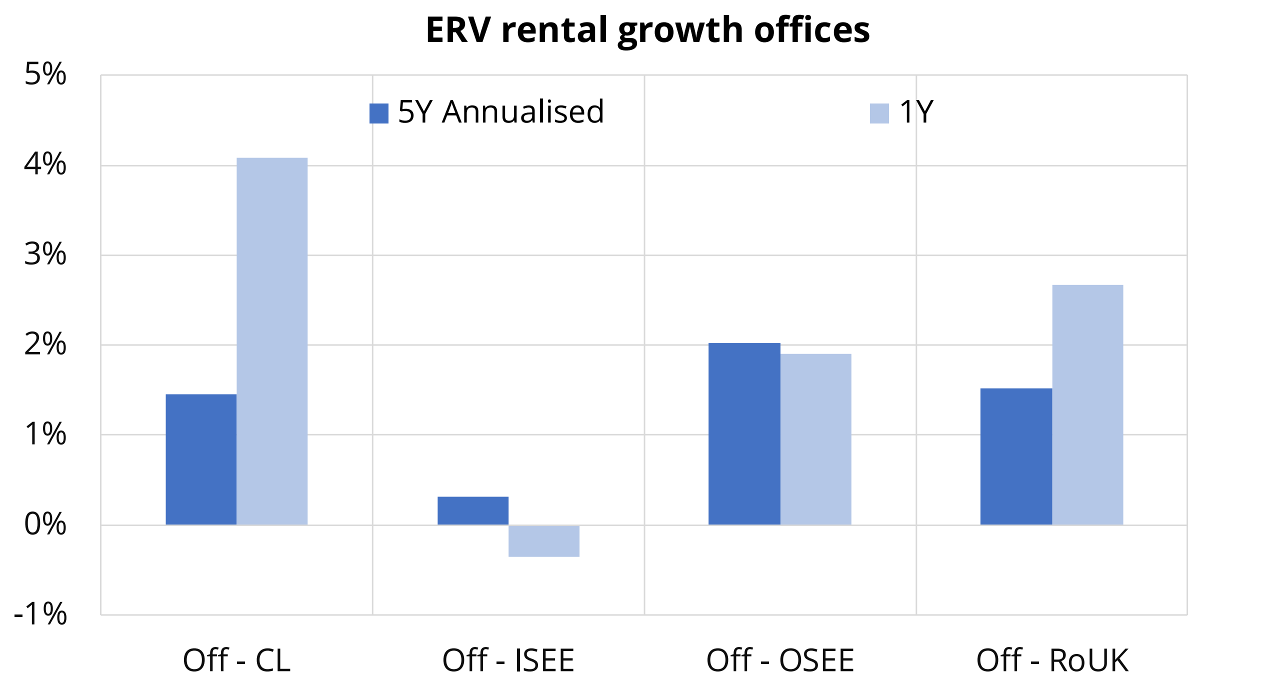
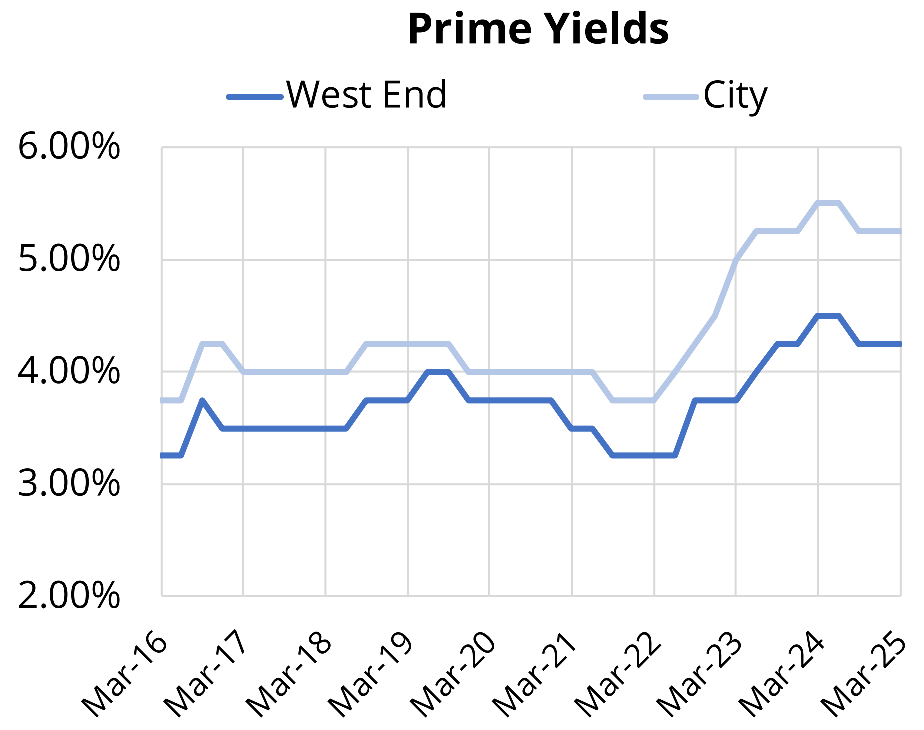


Source: MSCI Monthly Index (March 2025)

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

Rental growth still evident



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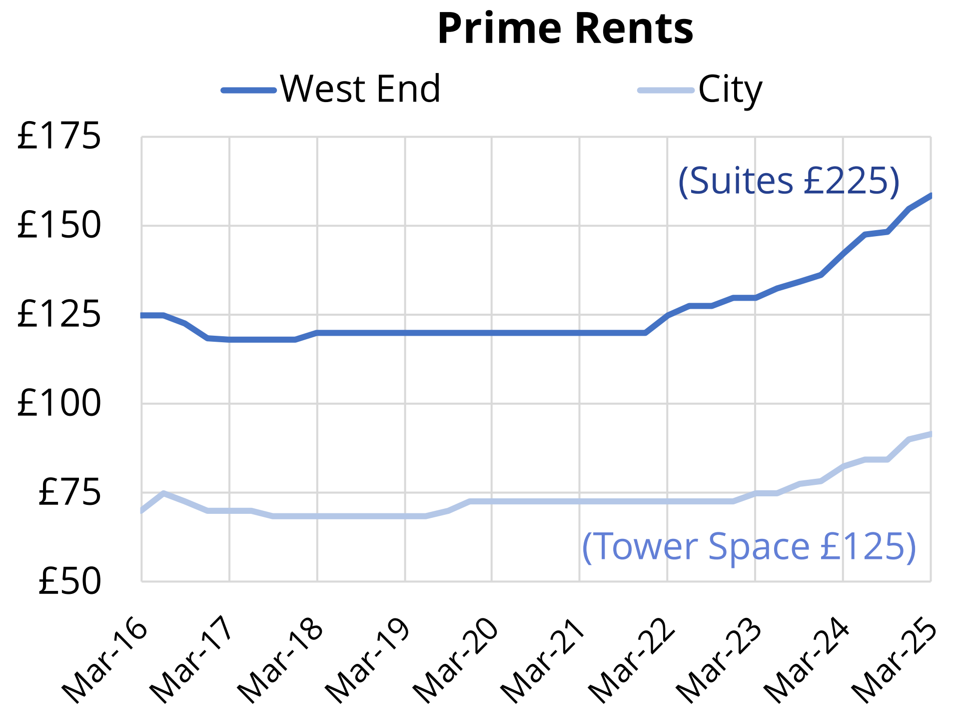

Source: Colliers (March 2025)

An upside for the City of London?

Tariffs impacts

‘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 allows 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*

For further information, please contact
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