

UK Commercial Property – Metrics & Momentum

Dr Walter Boettcher, Head of Research Colliers
Professional Conferences
BAWA, Bristol
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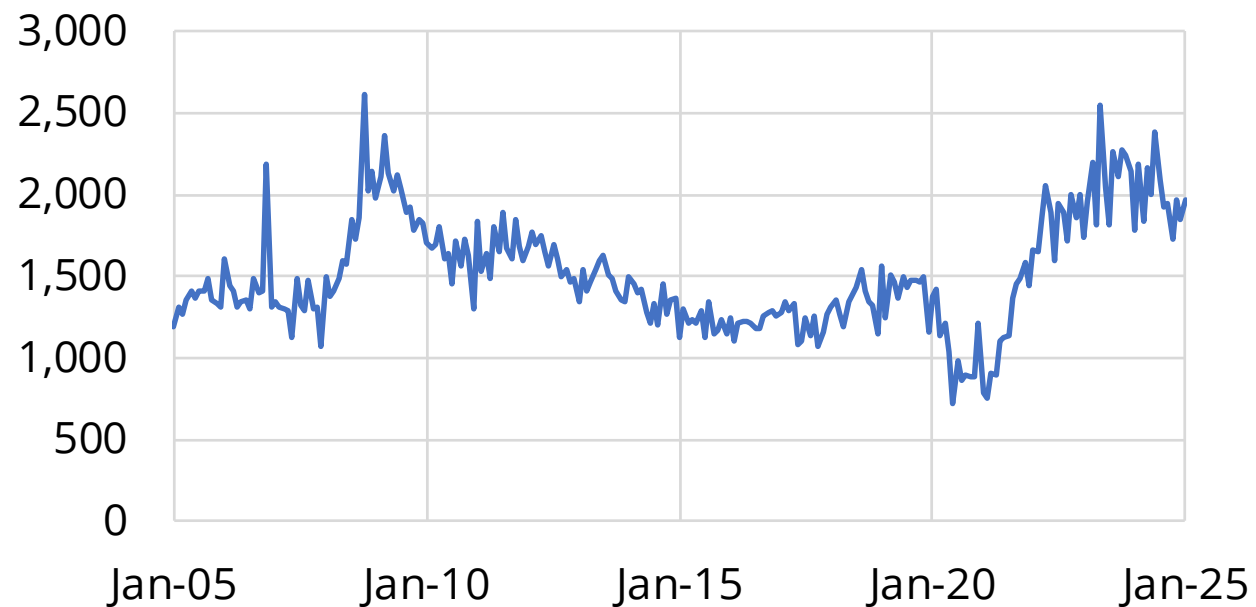
Failures at Global Financial Crisis level

Company insolvencies

Creative destruction?

Cyclical renewal or
administrative neglect?

Company Liquidations (SA)



Source: The Insolvency Service (January 2025)

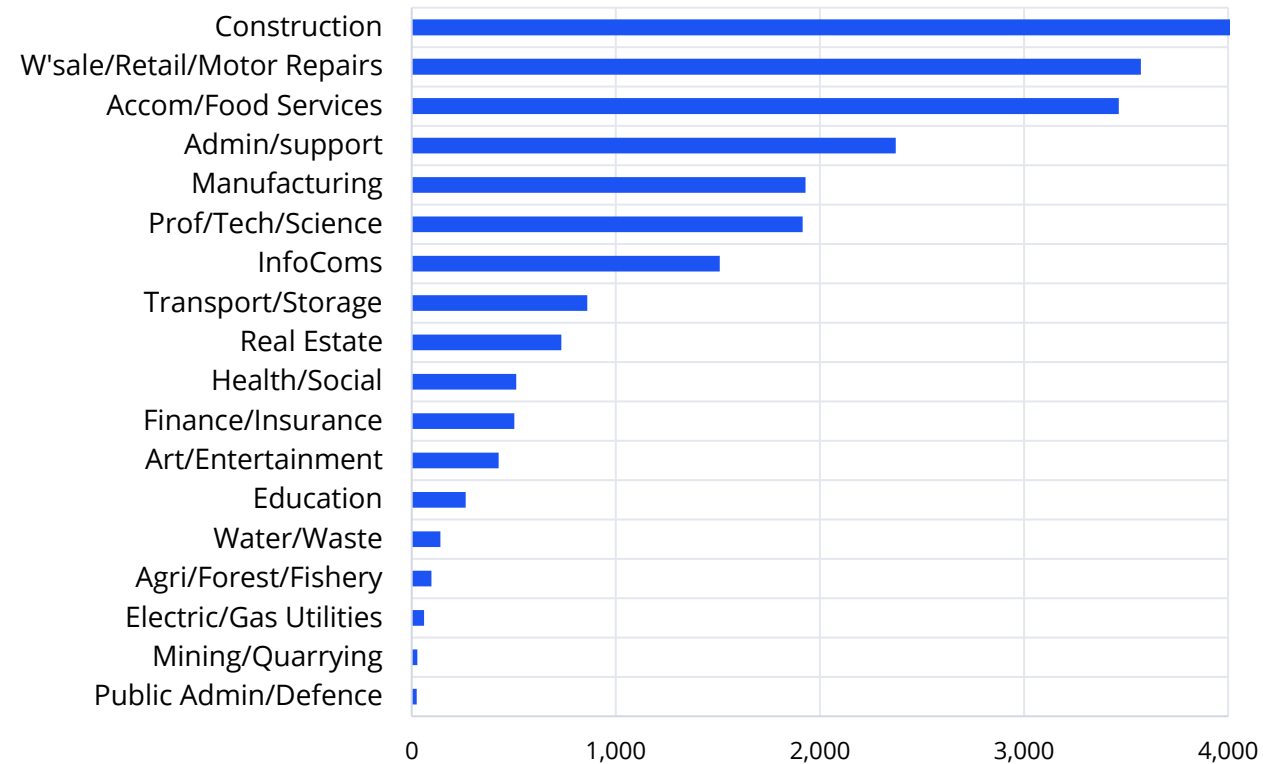
Failures at Global Financial Crisis level

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Insolvencies by sector, 2024



Source: Insolvency Service (England & Wales)

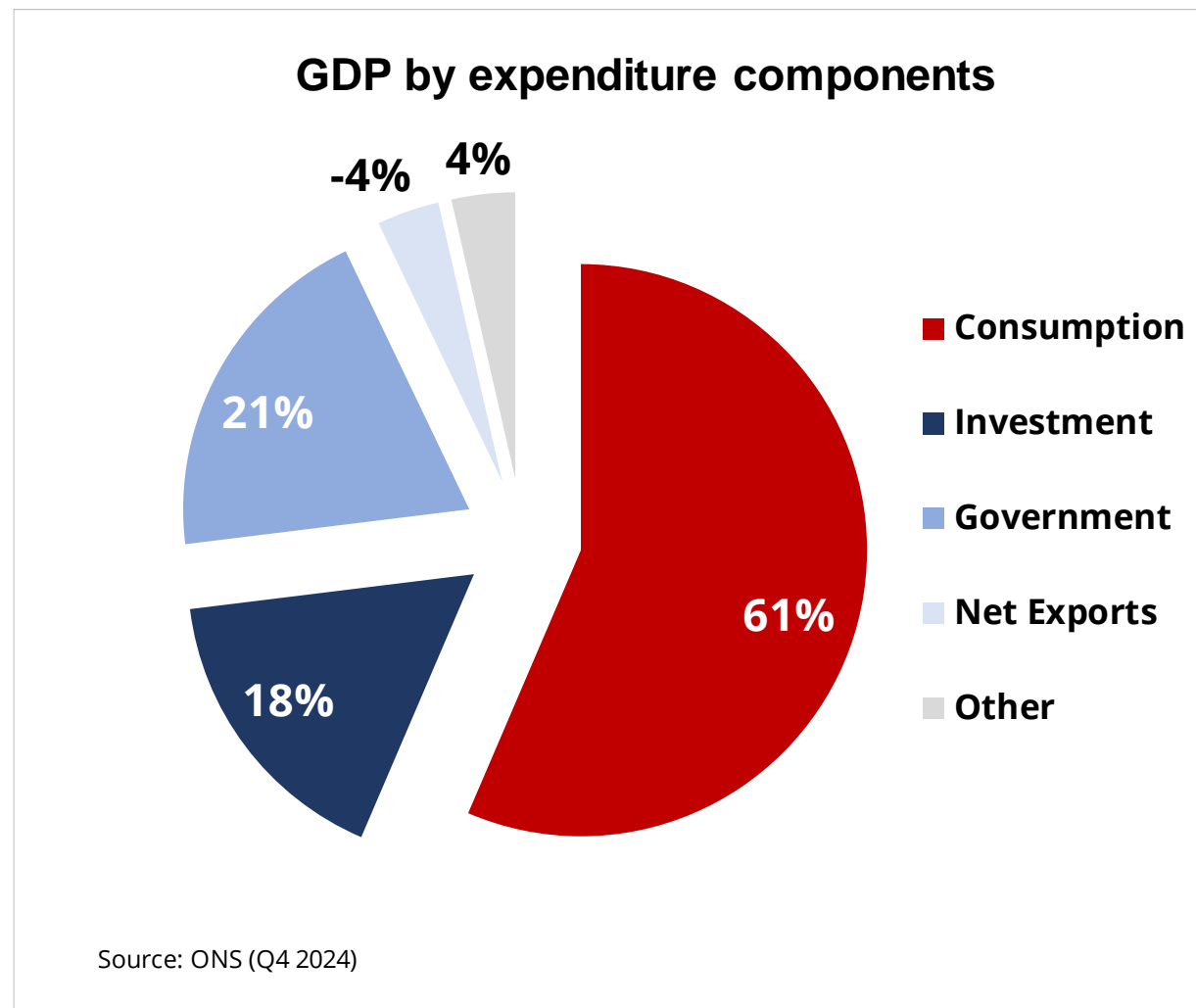
Agenda

- 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
 - Household disposable income
 - Savings rate (ca10%)
 - Mortgage & debt costs
 - Household costs (energy, rent)
- **Investment** – business uncertainty
- **Government** – consumption & investment
 - borrowing to spend is not sustainable
 - fiscal headroom
 - debt interest / revenue ratio > 10%
- **Net exports** – Exports minus imports
 - UK exports to EU (42%)
 - UK exports to US (15%)

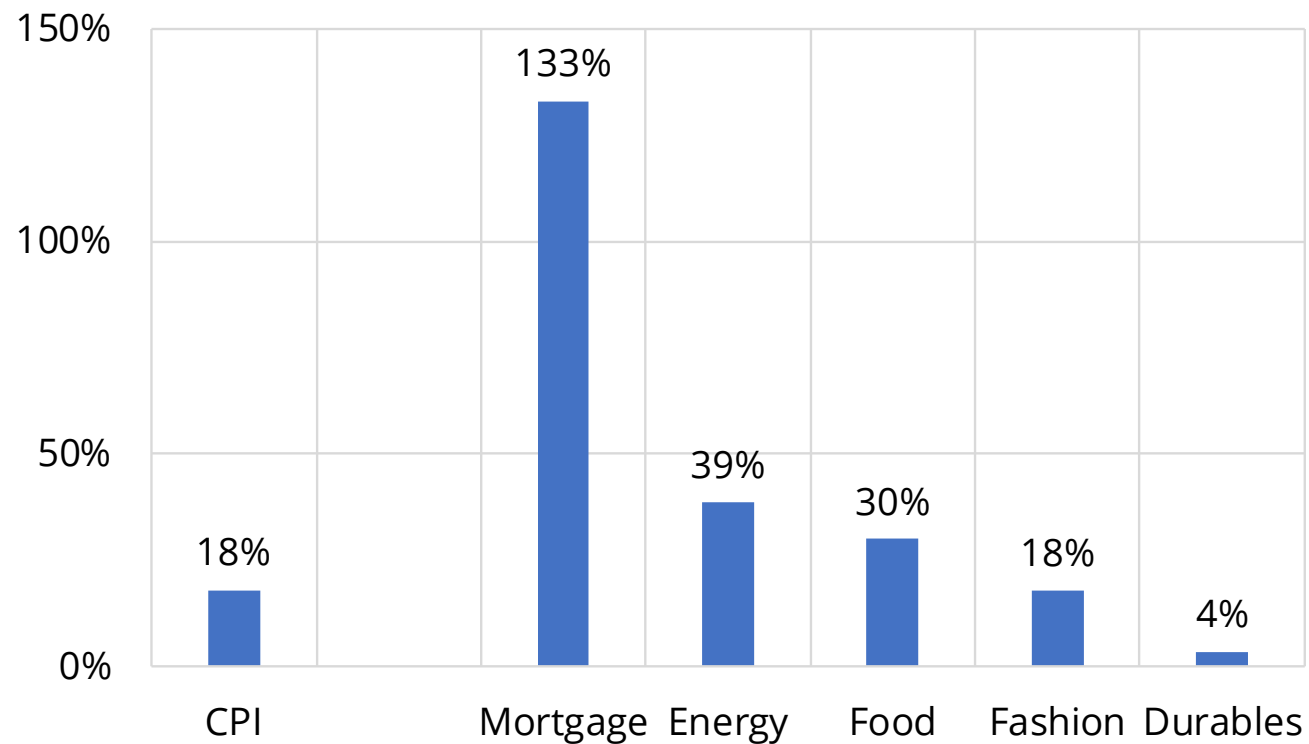


Down but not out!

Inflation

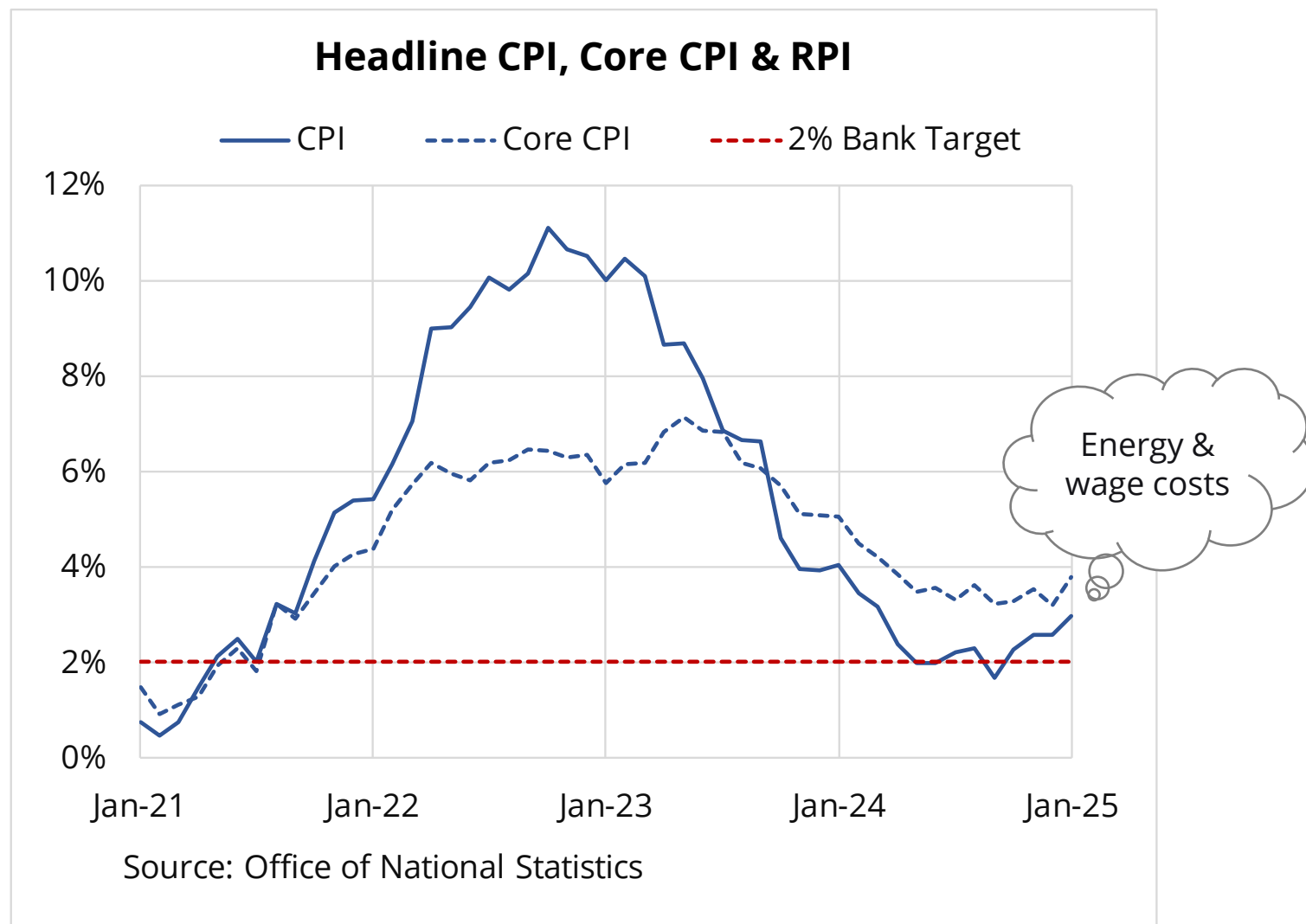


Price increase pre- and post- inflationary spike



Source: ONS, CPI/RPI Jan 2022 to Dec 2024

Down but not out! Inflation



UK purchasing manager indices reflect October Budget policies

S&P Global commentary

*“The loss of confidence, combined with widespread concerns over **higher staff costs associated with the Budget**, pushed employment sharply lower again. Barring the job cutting seen during the pandemic, the rate of job losses signalled by the PMI over the past two months has been the highest since the global financial crisis in 2009.”*

Update (21 Feb):

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

Update (06 Mar):

Construction new orders balance fell from 47.4 to 39.3 in March the lowest since Covid. Input prices up to 64.0 reflecting NI and labour costs

Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
24th January 1995

Trade has changed! It's about business ecosystems!

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

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

Home producer prices

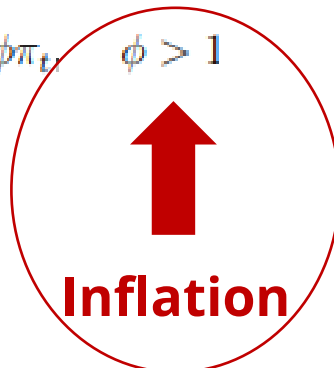
$$\pi_t = \hat{\pi} + \alpha \int_t^{+\infty} \left(\frac{W_{t'}}{P_{Ht'}} - 1 \right) e^{-r(t'-t)} dt'$$

Demand (foreign & domestic)

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

Monetary policy target

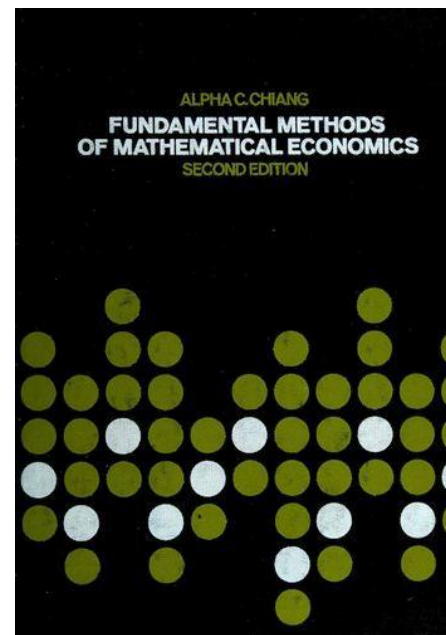
$$\dot{i}_t = r + \phi (1 - \phi) \hat{\pi} + \phi \pi_t, \quad \phi > 1$$



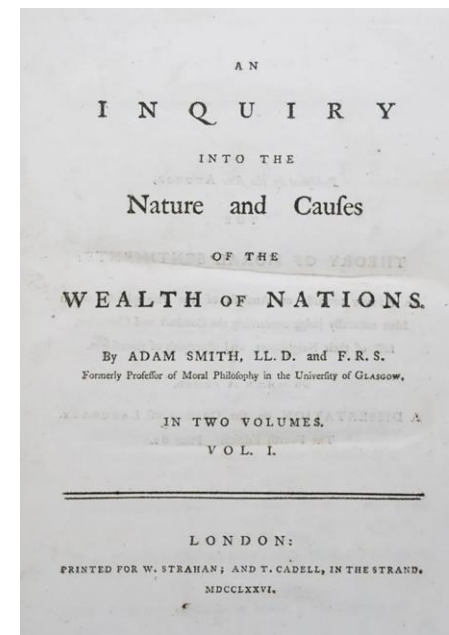
Source: Jeanne & Son. "To What Extent are Tariffs Offset by Exchange Rates?". NBER (2021).

Chinese authorities summon Walmart executives over Donald Trump's tariffs

Move comes after reports that retailer asked its suppliers to cut prices in response to US levies



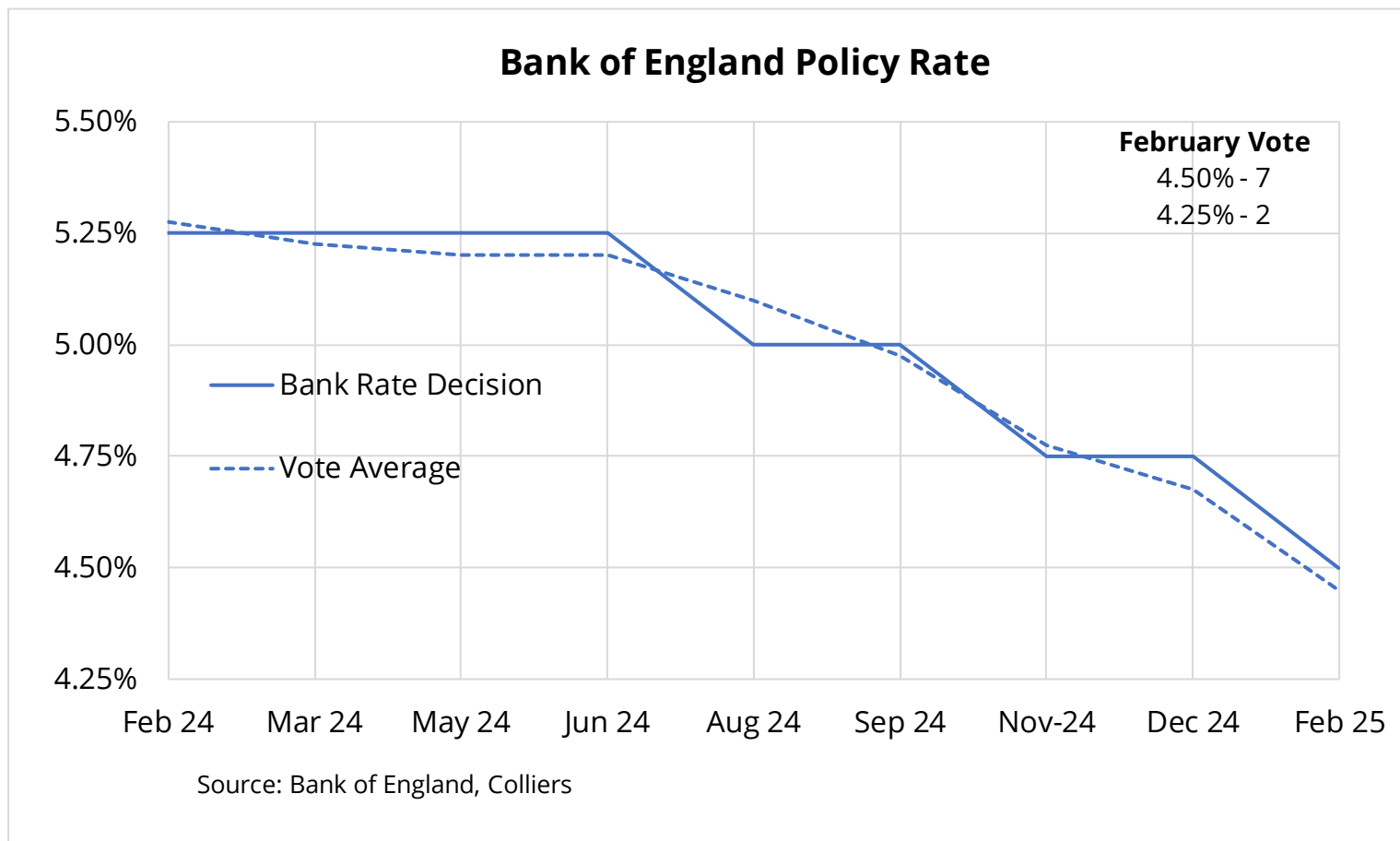
Alpha Chiang
(1927 -)
Mathematical Economics
1st edition 1967
4th edition 2005



Adam Smith
(1723 - 1790)
Trade theory
1st edition 1776
5th edition 1789

Monetary policy accommodating fiscal tightening

Interest rates



Monetary policy accommodating fiscal tightening

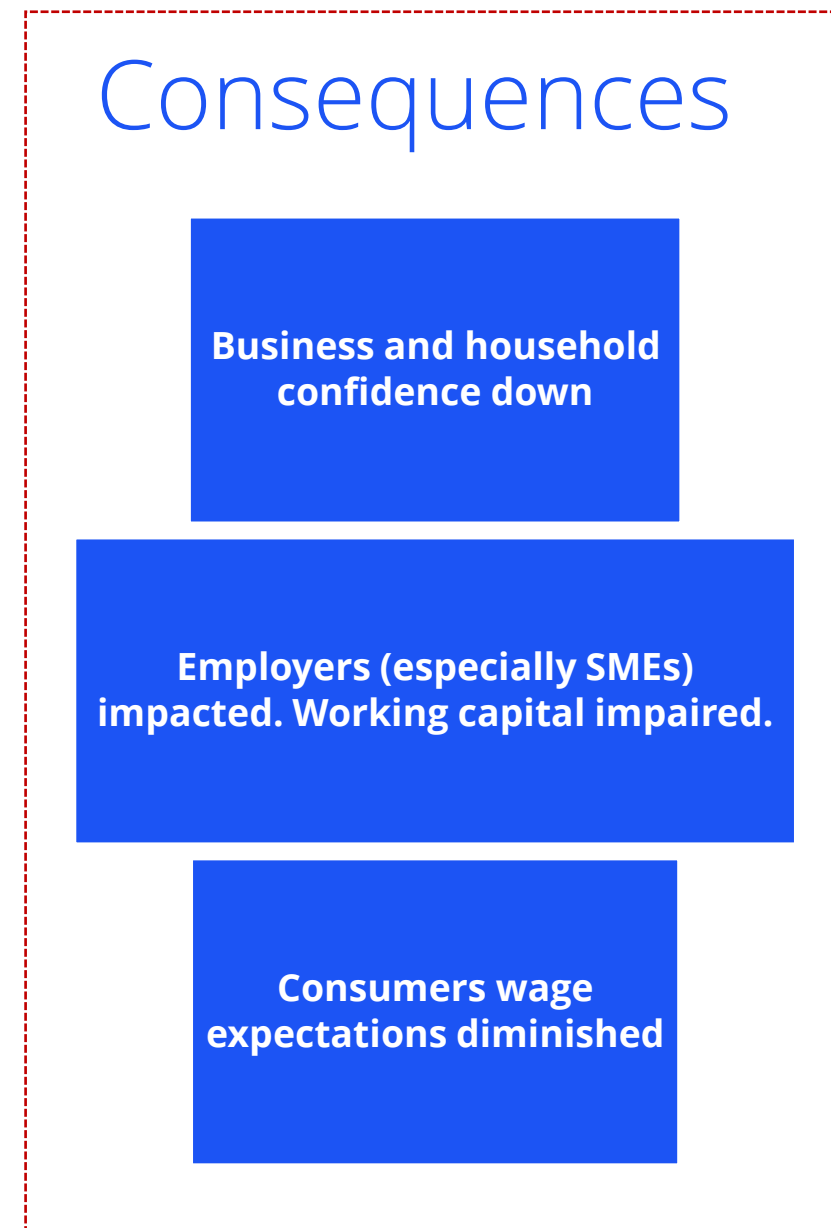
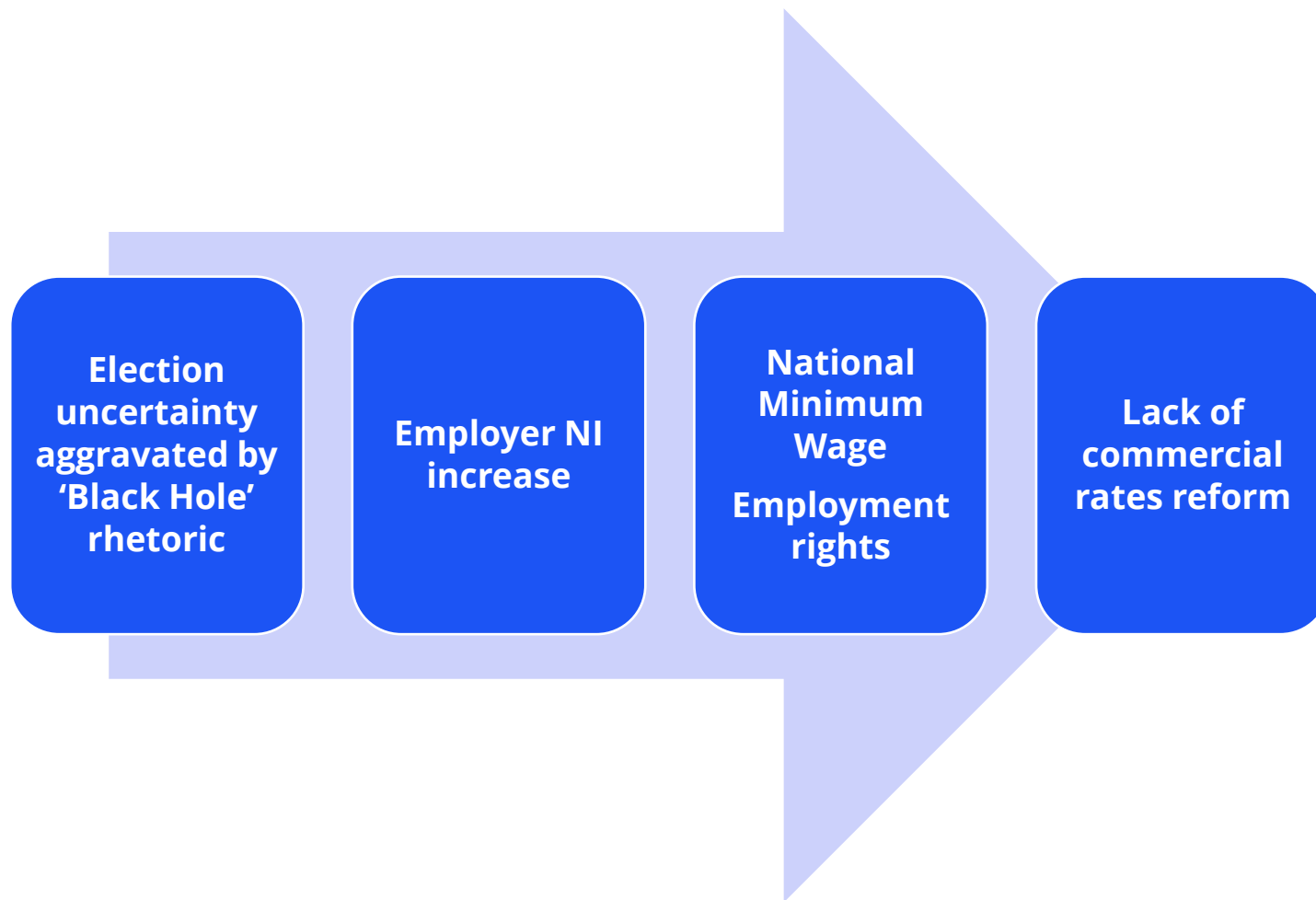
Interest rates

2025 Forecast	HMT Consensus	Market	OE	CE	BarCap	HSBC
Bank Rate	3.85%		3.75%	3.75%	3.50%	3.25%
GDP	1.0%		1.0%	0.7%	0.9%	0.9%
CPI	2.8%		3.4%	2.8%	2.5%	2.6%
Source: HMT Consensus Forecasts (*New), Capital Economics, Oxford Economics						

2026 Forecast	HMT Consensus	Market	OE	CE	BarCap	HSBC
Bank Rate	3.52%		3.00%	3.50%	3.50%	3.00%
GDP	1.4%		1.5%	1.5%	1.4%	1.5%
CPI	2.3%		2.0%	1.6%	1.9%	2.3%
Source: HMT Consensus Forecasts (*New), Capital Economics, Oxford Economics						



Victims of their own hubris? Government fiscal policies



Spring Budget Statement imminent

Fiscal headroom and policy

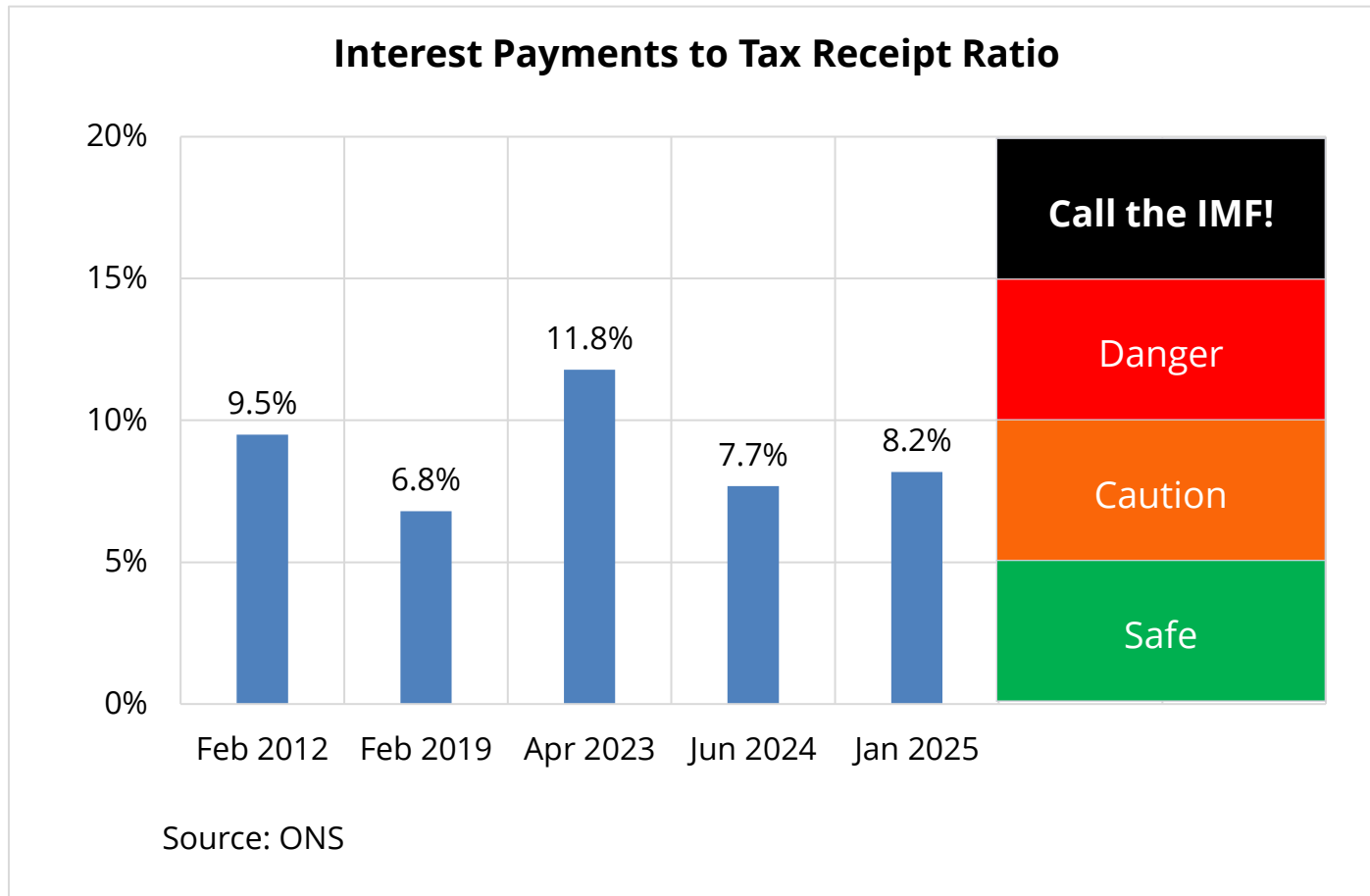
Options

Hope for the best?	Current approach
Increase taxes?	Unlikely – local elections in May
Tweak existing tax policies?	Possible but ineffectual – scale too limited
Cut spending now?	Unlikely – GDP in 2025 relies on government spending
Cut spending later?	‘Yes’ -- continue to hope for the best
Print money? QE2?	Option of last resort!



Spring Budget announcement imminent

Fiscal headroom and policy



Looking ahead

Key dates to watch

19 March: US FOMC Meeting

20 March: UK BoE Meeting

26 March: OBR publishes new forecasts

26 March: Spring Budget

1 April: stamp duty changes come into effect

6 April: NI & NMW changes come into effect

1 May: UK Local elections





Occupational

Industrial markets

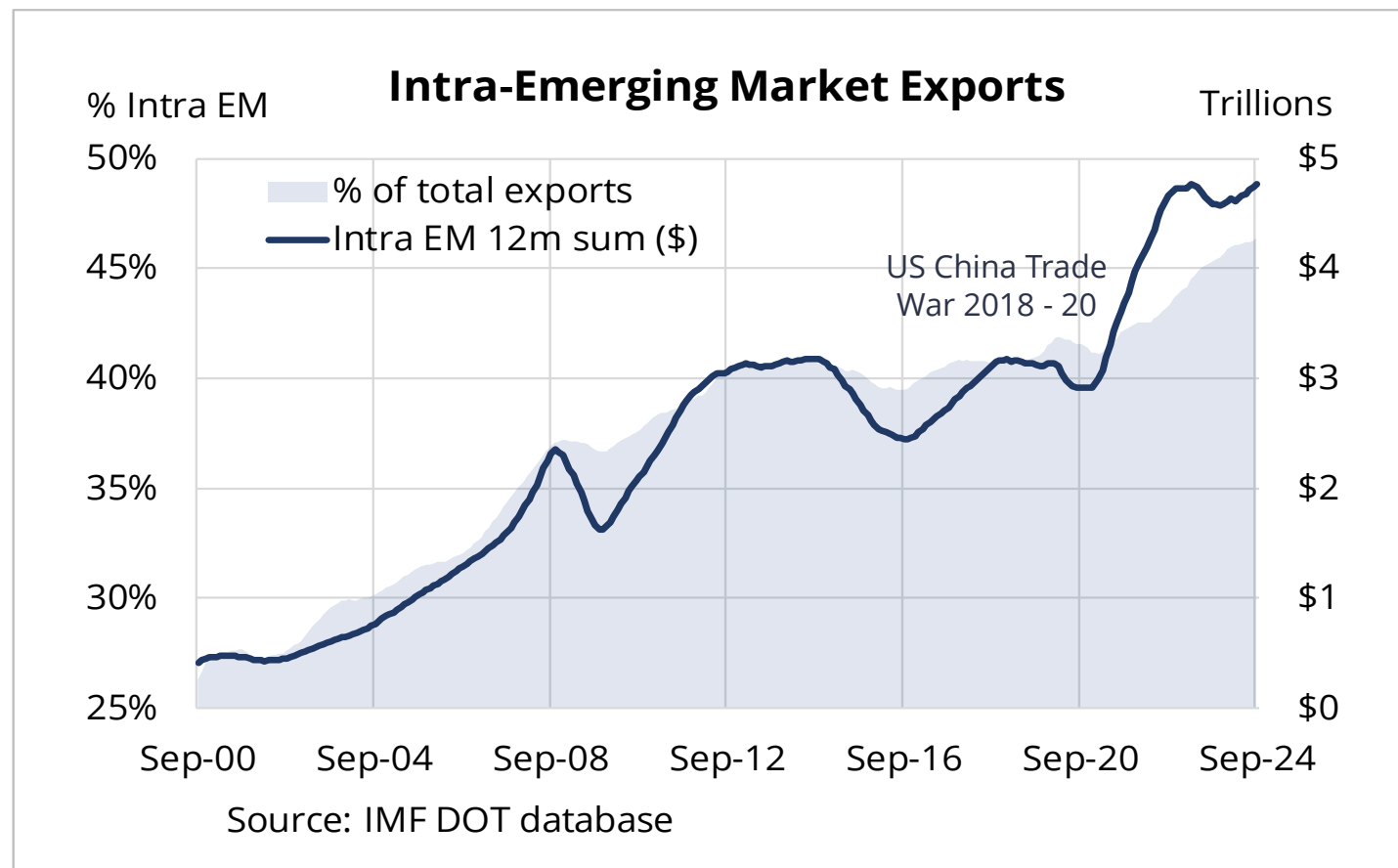
China's Trade Surplus Reaches a Record of Nearly \$1 Trillion

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

China has options - investing in more manufacturing capacity

Merchandise trade tells another story

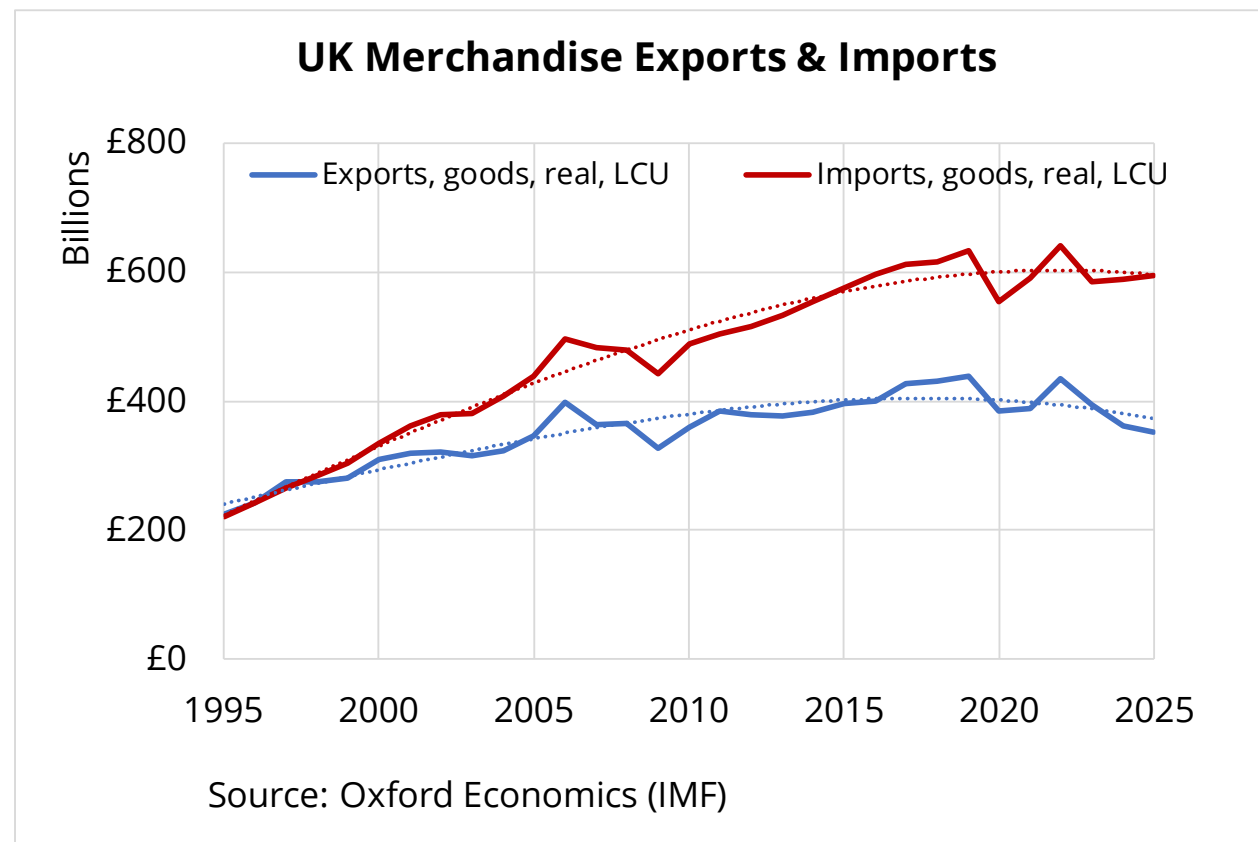
- Intra-EM trade growing rapidly and accounts for 47% of all EM exports
- Annual value of Intra-EM trade up by half from £3 trillion to almost £5 trillion since 2019.
- As EM domestic demand grows, global competition for international manufactures and capital goods will grow
- New inflationary pressures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



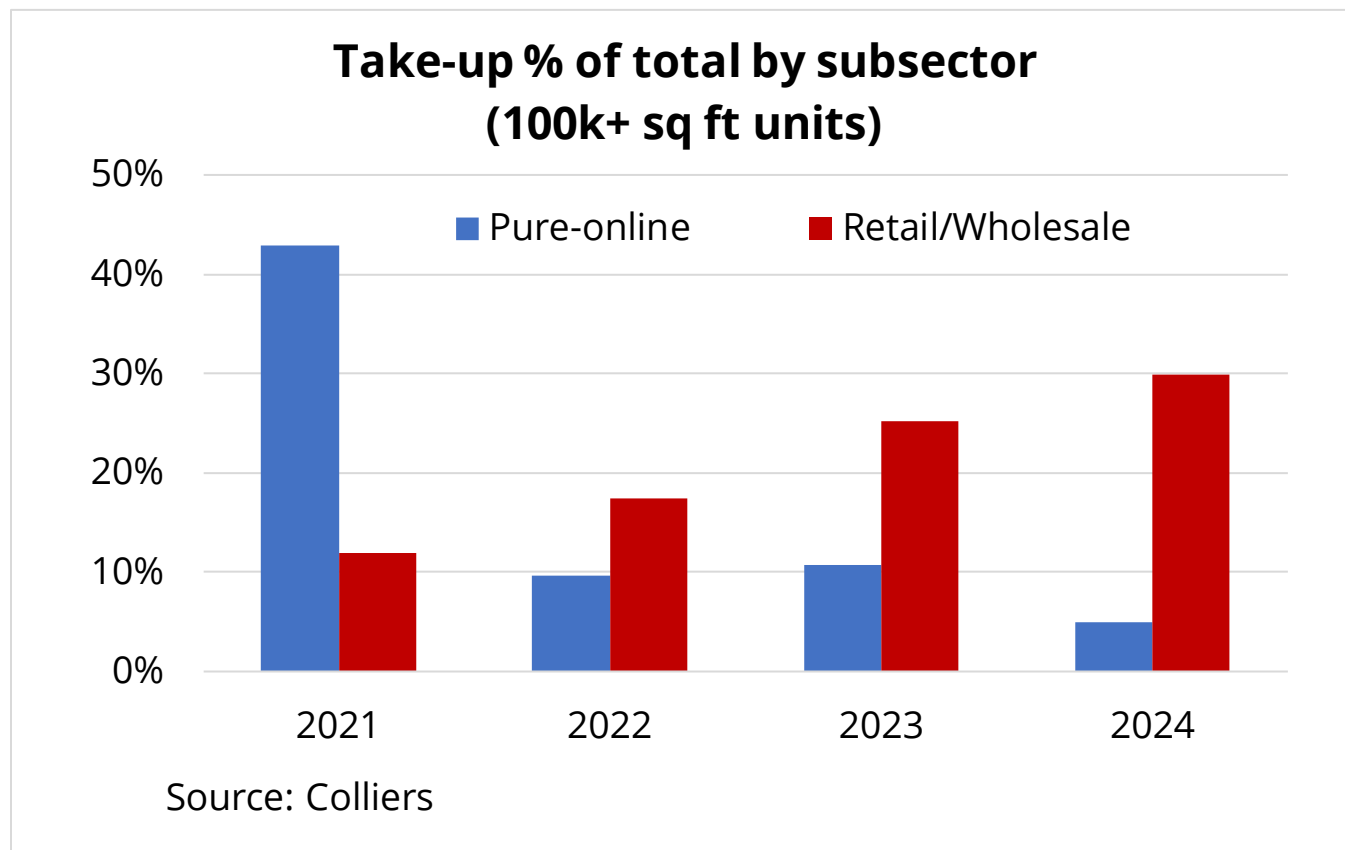
Tariffs may accelerate Chinese influence in Emerging Markets

UK merchandise trade already in abeyance

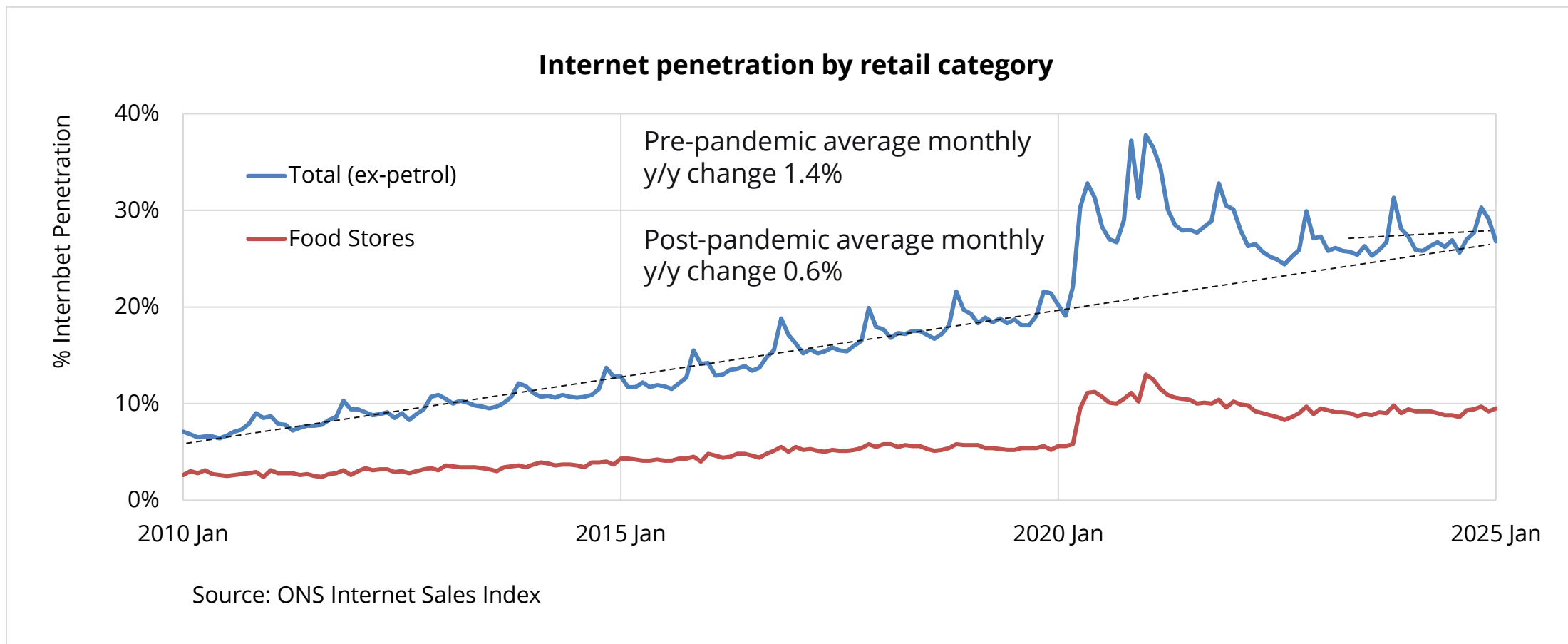
- Advanced Economies need to get their house in order or be overtaken by consolidation of Emerging Market trade
- UK trade growth already limited
- UK port operators faced with increased capital investment:
 - i. Scale of container ships*
 - ii. Supply chain logistics*



E-commerce growth slowing. Retailers re-building capacity. UK logistics market trends

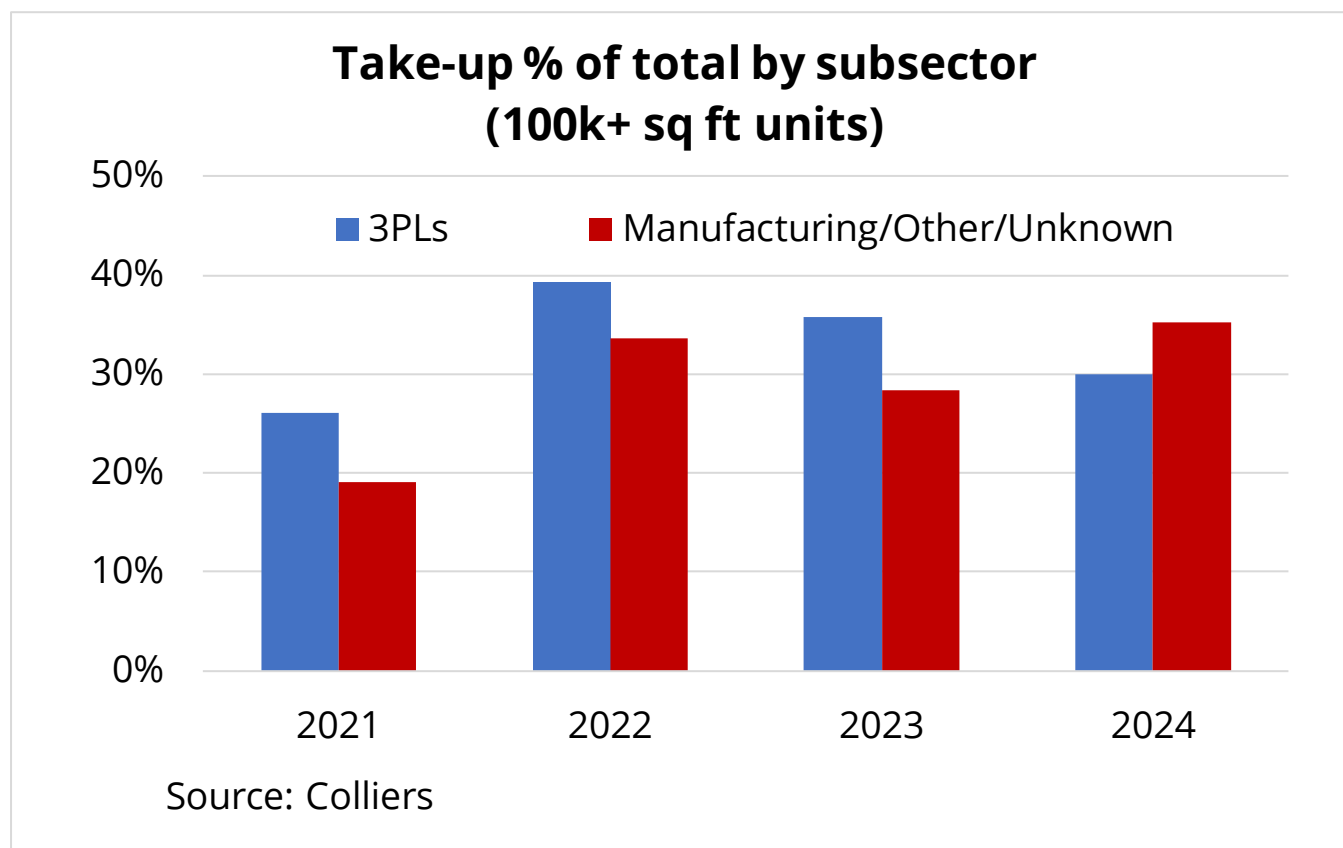


Respite on the horizon? E-commerce market share stabilising? Retail operators still struggling?



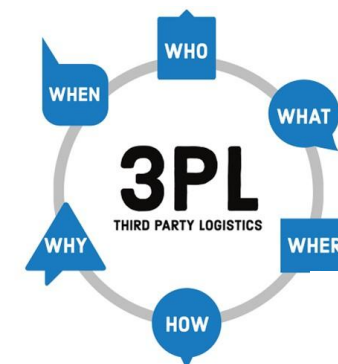
3PL consolidations (M&As) & manufacturing supply chain security.

UK logistics market trends



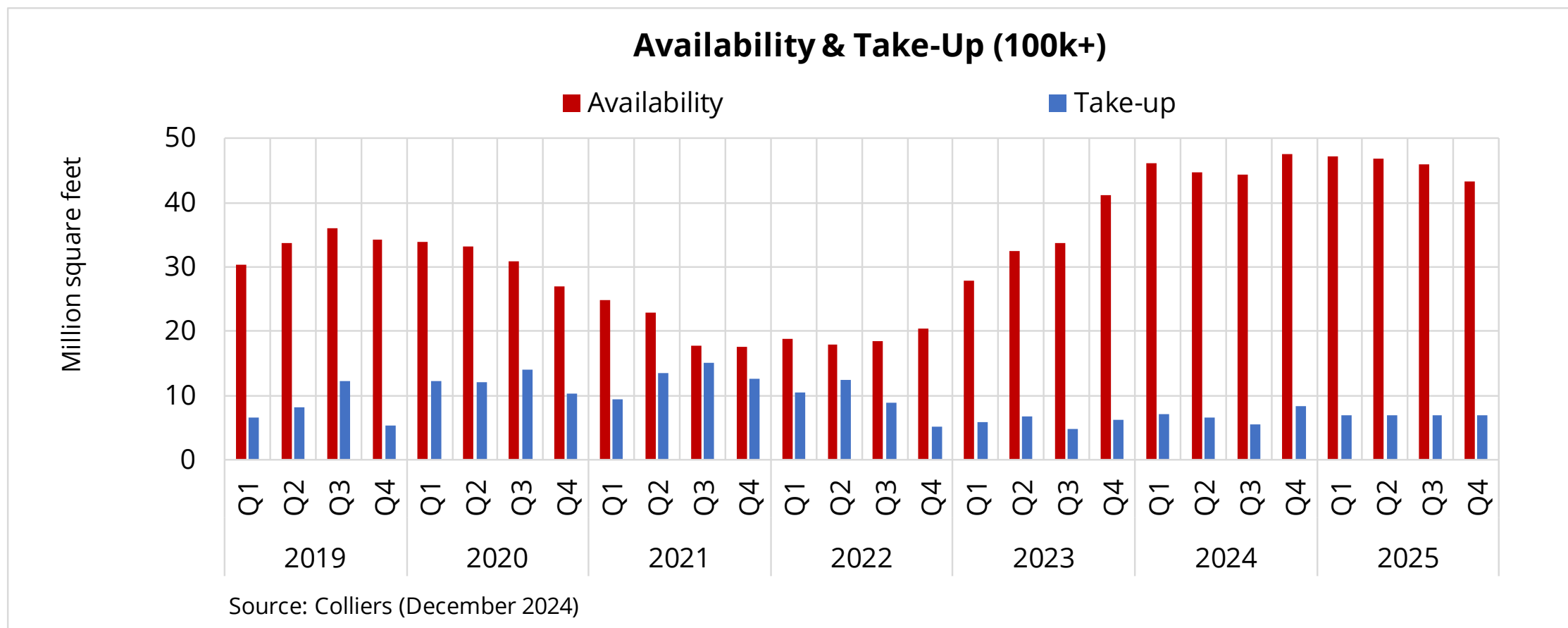
Mergers & Acquisitions (examples)

- 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)



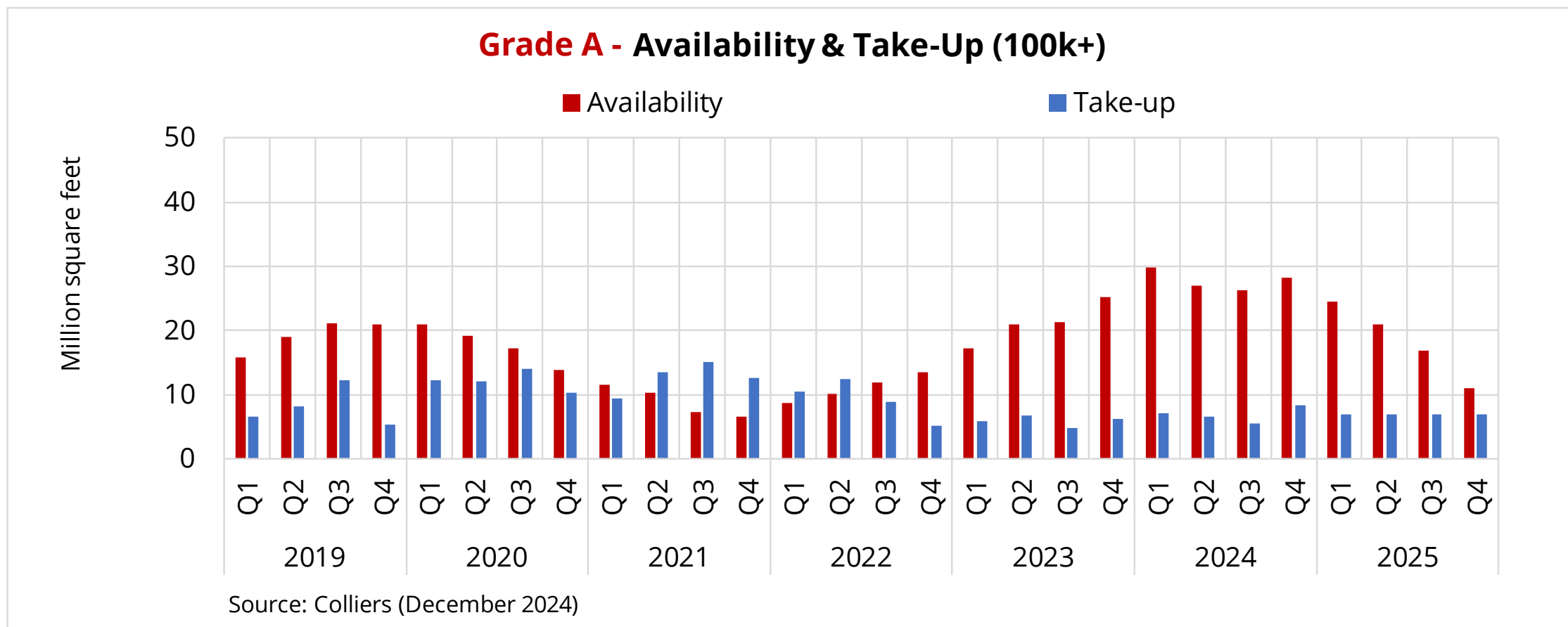
Depends how you look at it!

Industrial logistics oversupplied?



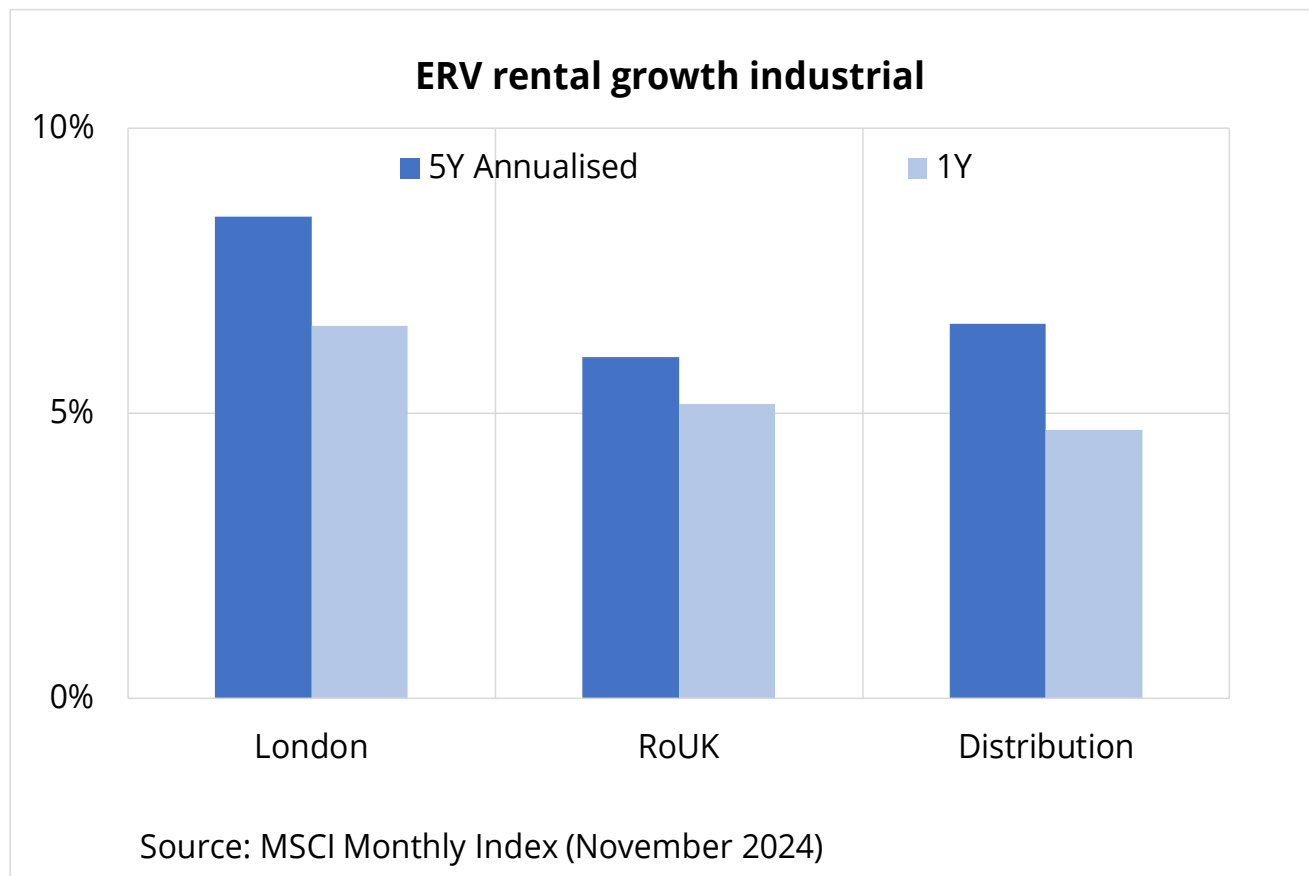
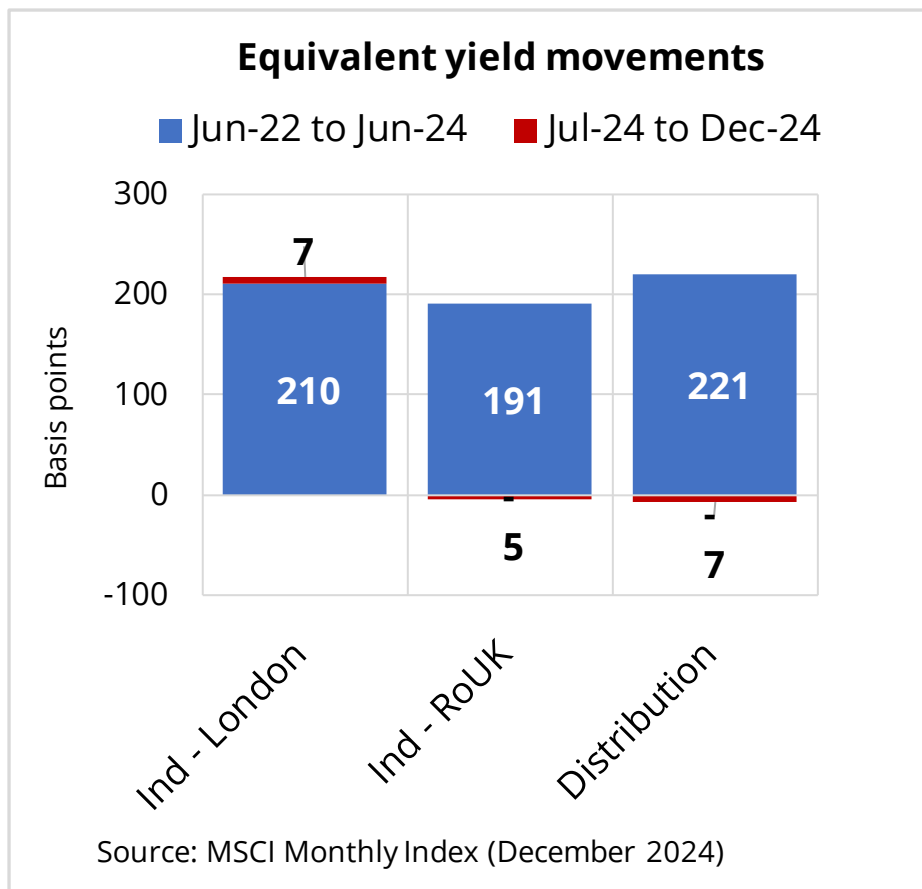
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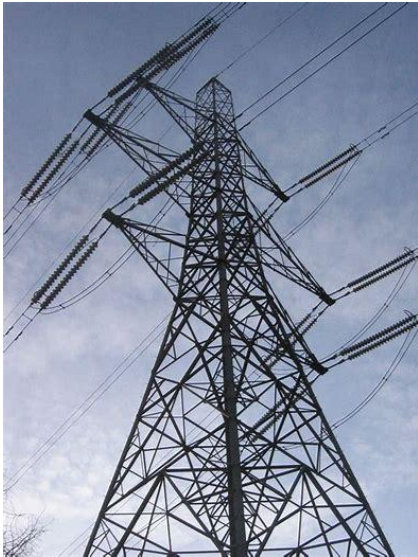
Industrial still attractive to investors

Rental growth still evident

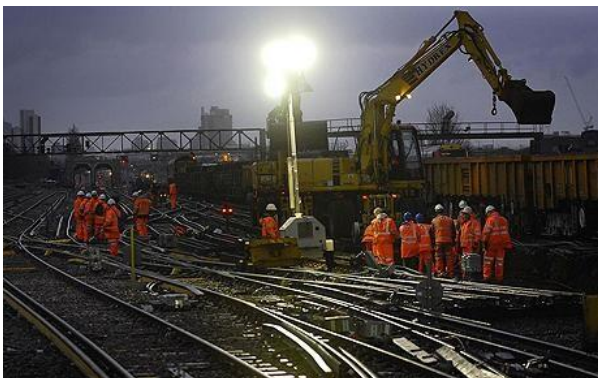


Lack of infrastructure and planning dysfunction slowing delivery

New supply constrained



- **Lack of power!**
- **Lack of planning support.** Lack of strategic planning. Warehouses not considered strategic planning reviews are done on a local level
- **Lack of Representation.** Labour has not assigned a government minister to represent the I&L sector
- **Lack of Grade A options.** Prime locations will slow movement



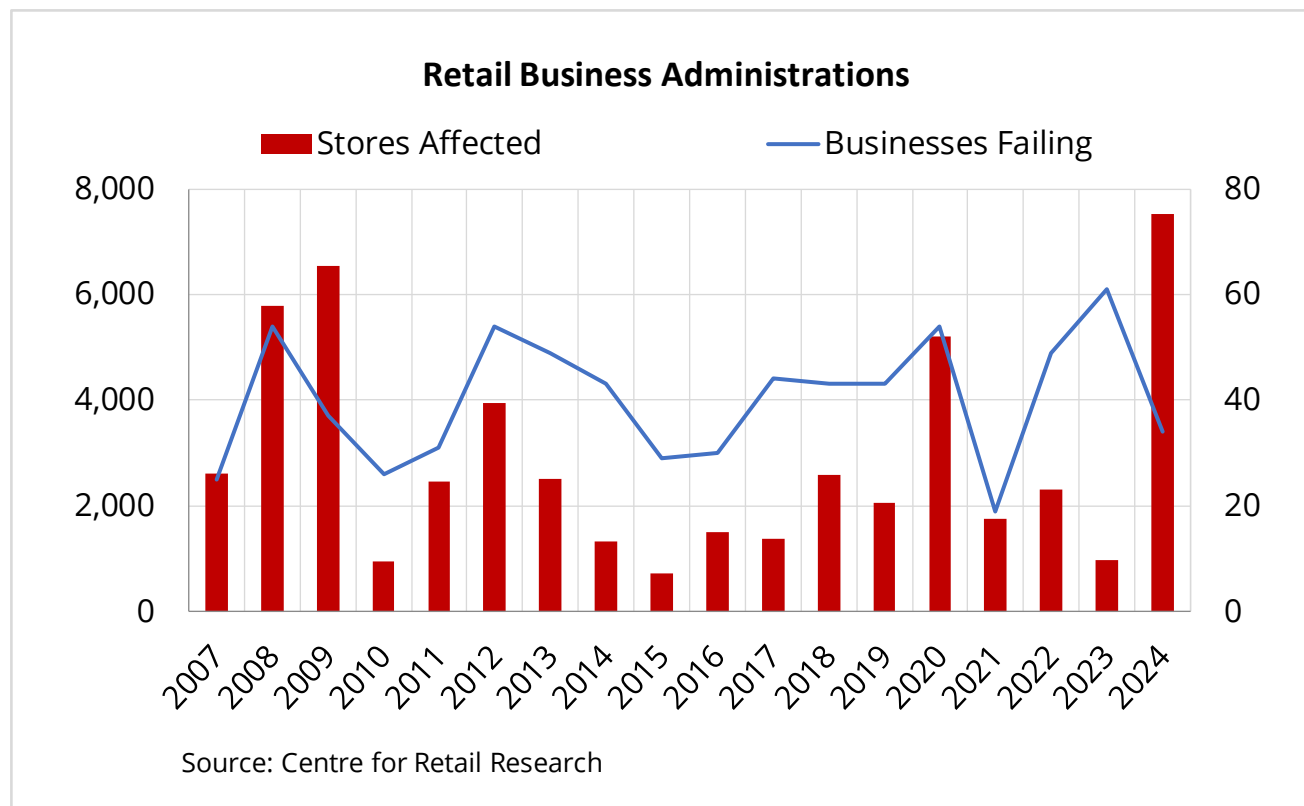


Occupational

Retail markets

Squeezed by weak sales and high input costs

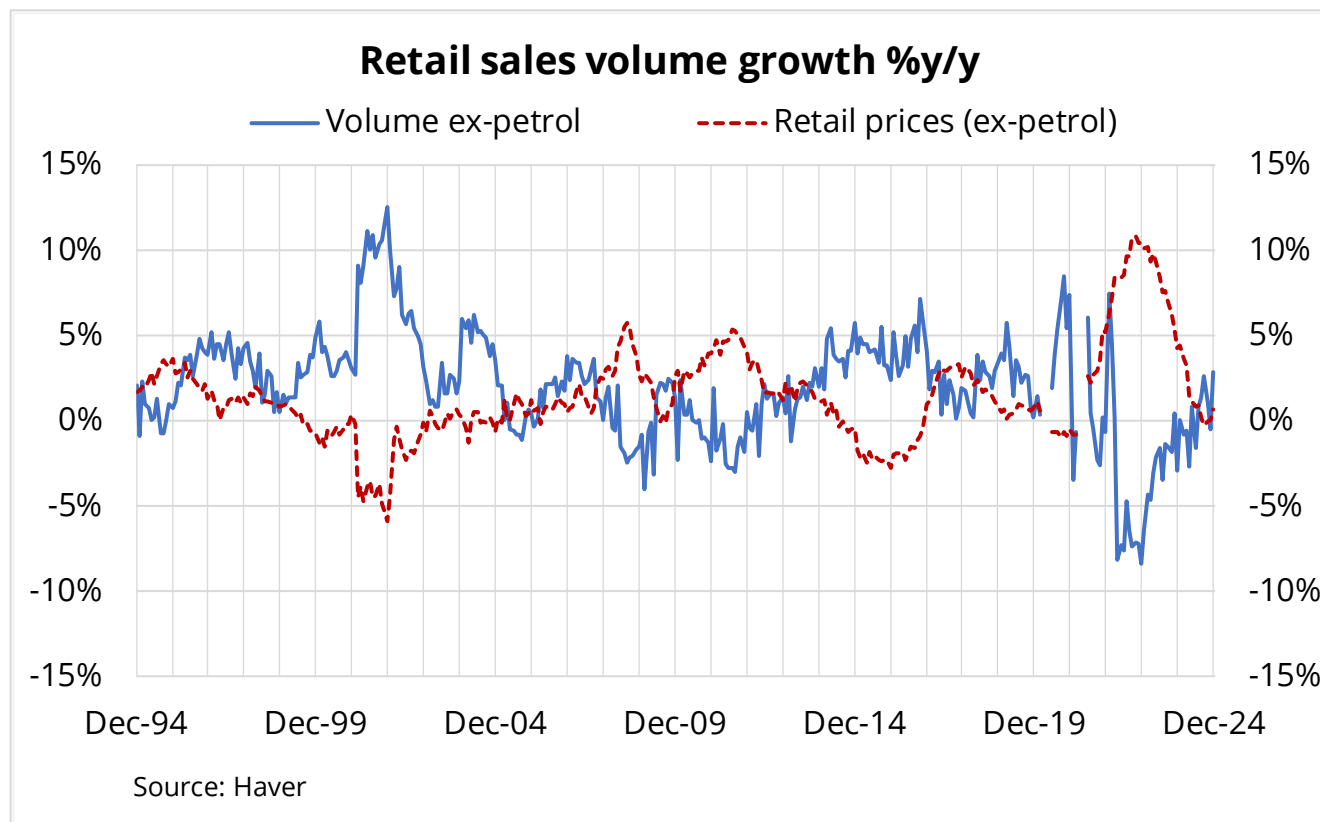
Retail operators struggling?



- 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.

Squeezed by weak sales and high input costs

Retail operators still struggling?



Demand very price sensitive

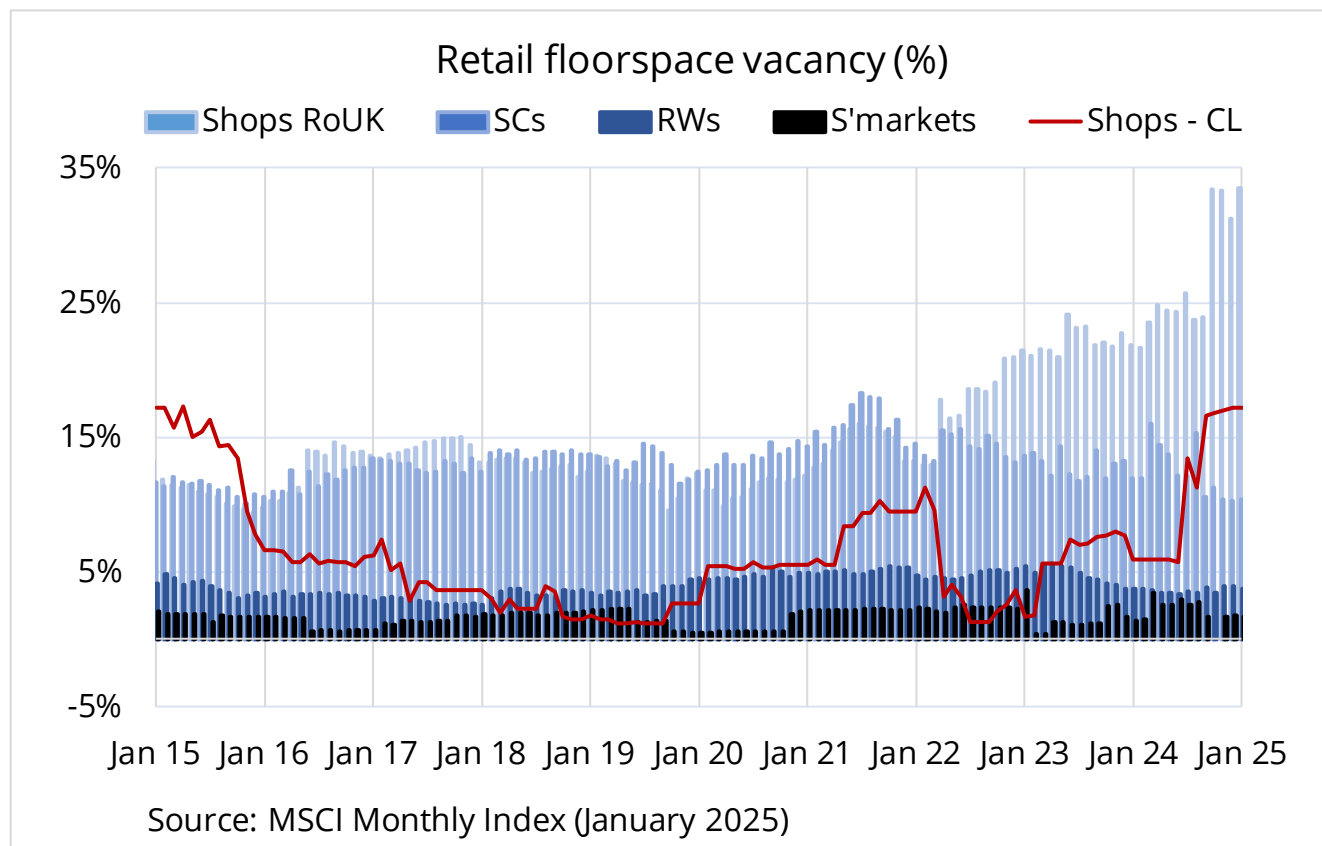
- ✓ **Correlation -0.77** (excluding Covid)
- ✓ Prices high
- ✓ Consumer confidence low
- ✓ Household savings ratio elevated

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**

Regional high streets most vulnerable to latest government policies

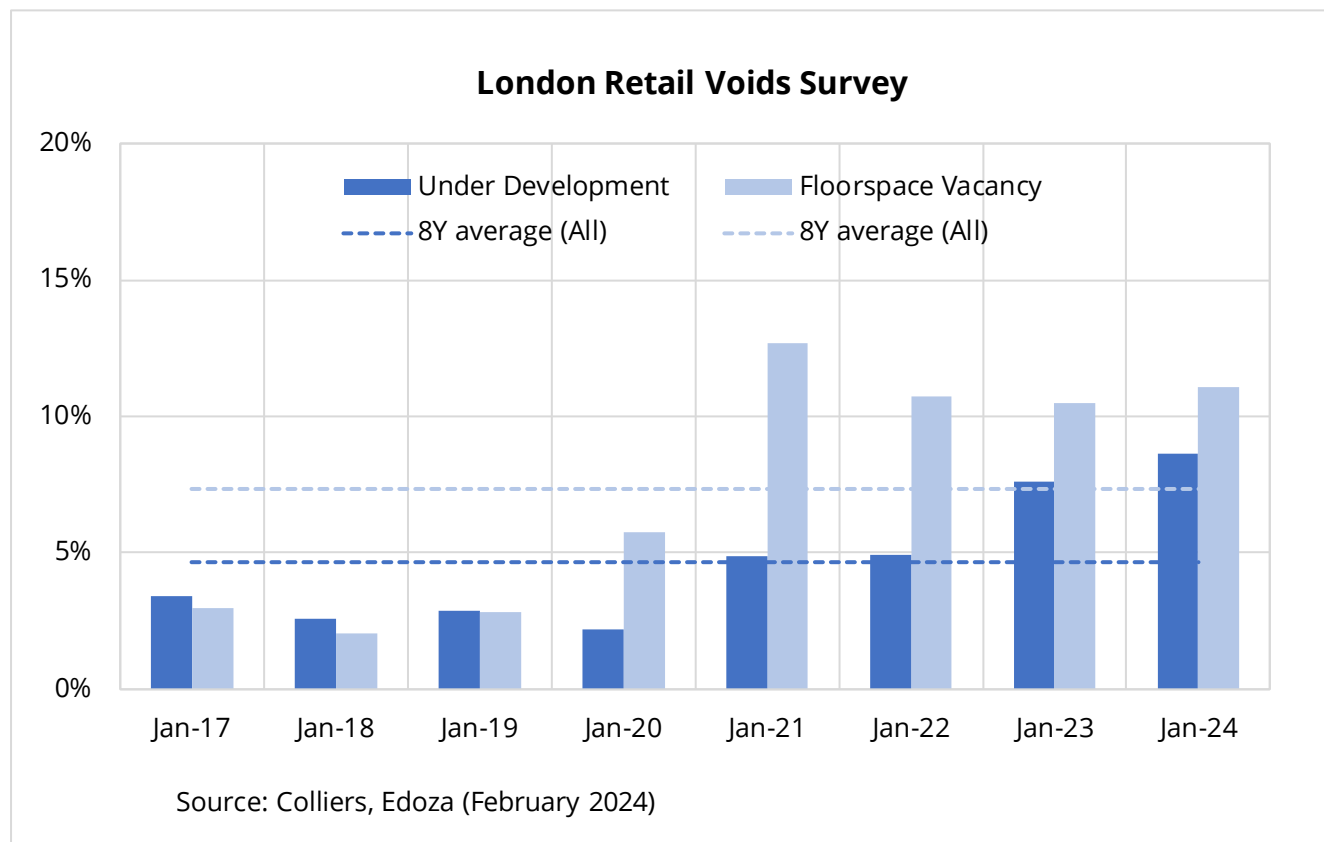
High street vacancies elevated



- **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.

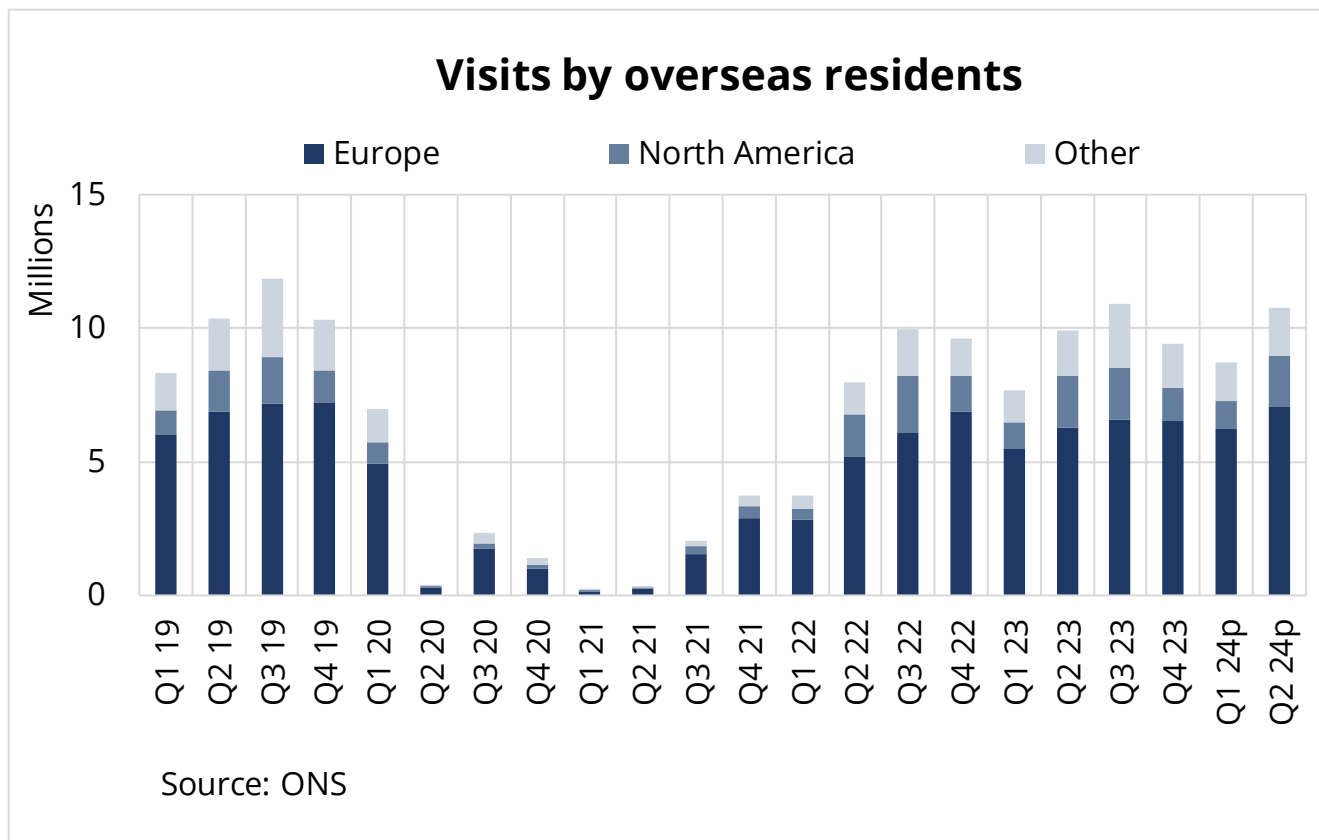
London retail paradigm shift in brands and formats

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.

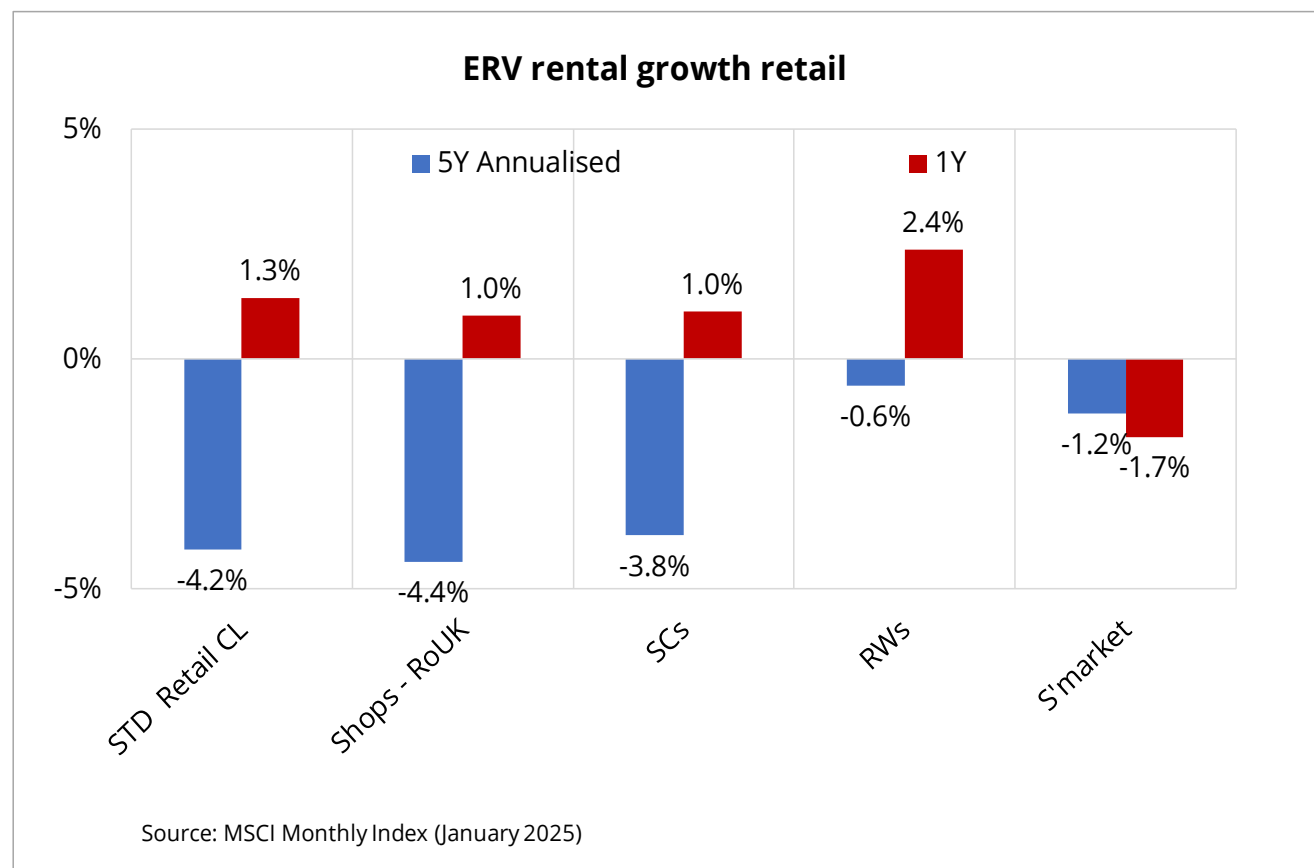
Previous patterns evident but loss of tax-free shopping UK tourism recovered but London still missing out



- 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

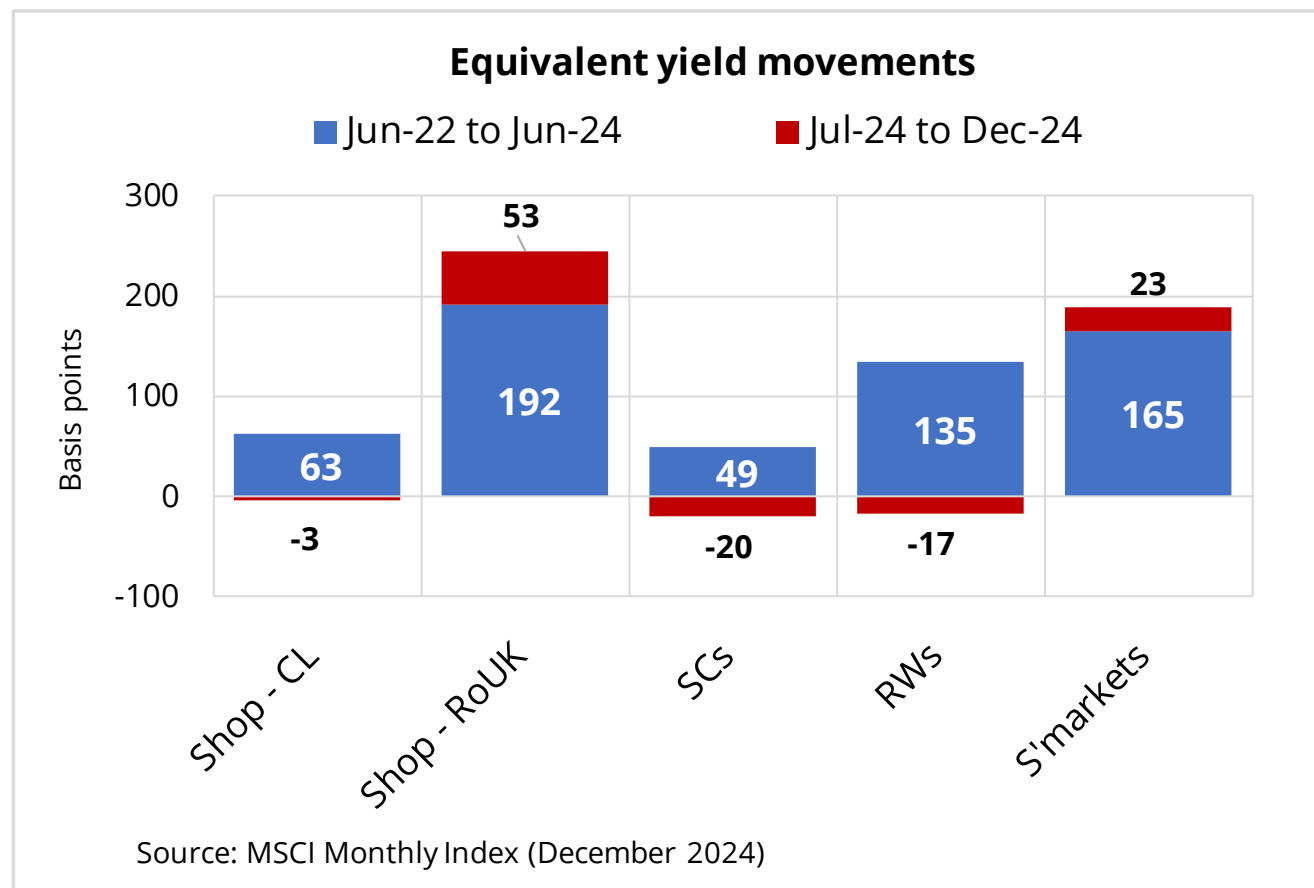
Rental growth evident across subsectors?



- **Supermarkets.** Market bifurcation. Lease extensions and re-gears offered by institutions at a discount to satisfy annuity pressures. Mid-sized operators acquisitive 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

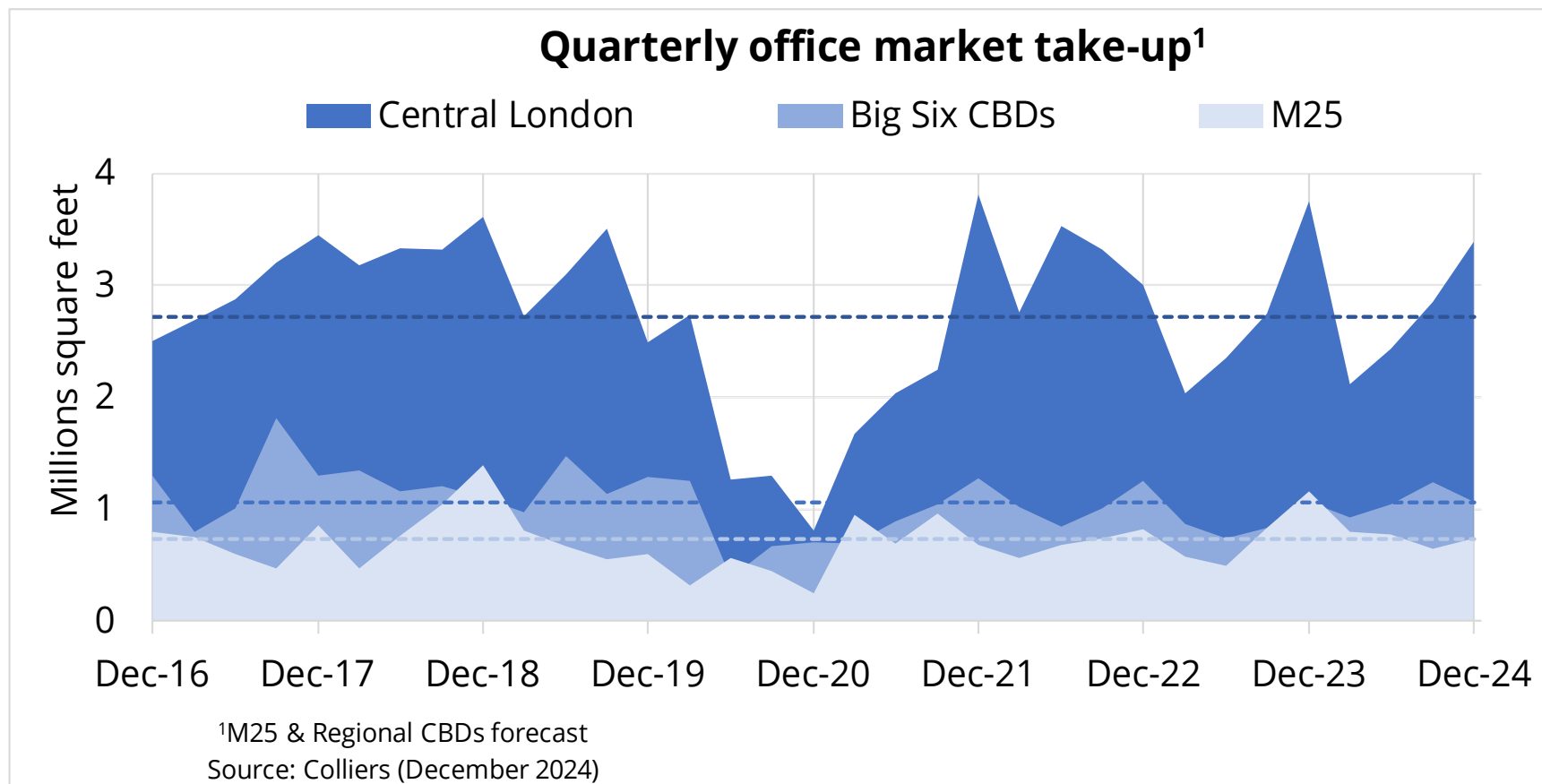
Occupational

Office markets



Diversity of demand evident across all markets

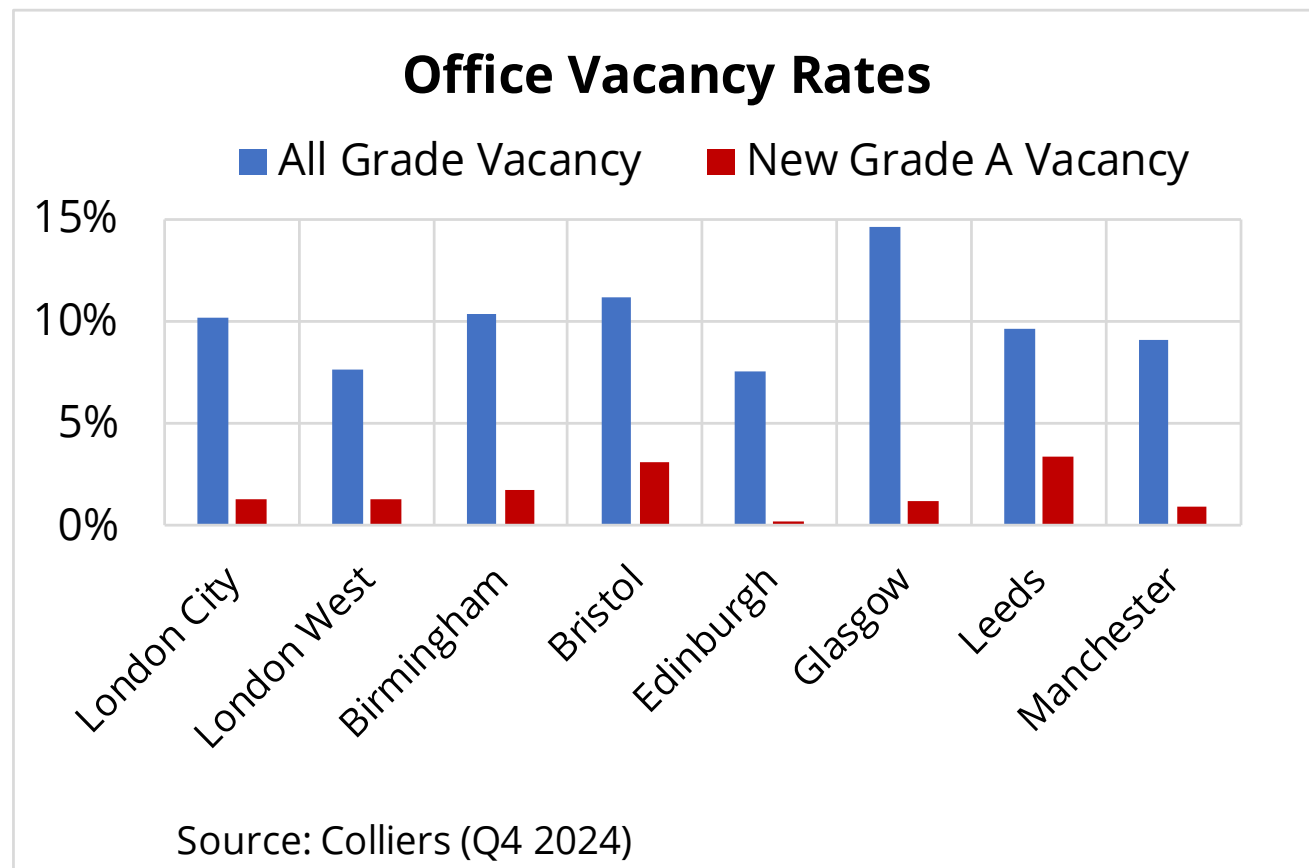
Leasing demand steady



- London showing strength
- Regional CBDs around 10-year average, although Manchester and Bristol showing strength
- Scotland buffeted by political uncertainty
- M25 stable/weak final quarter but a few substantial deals are in the works
- Office occupancy and demand has changed.

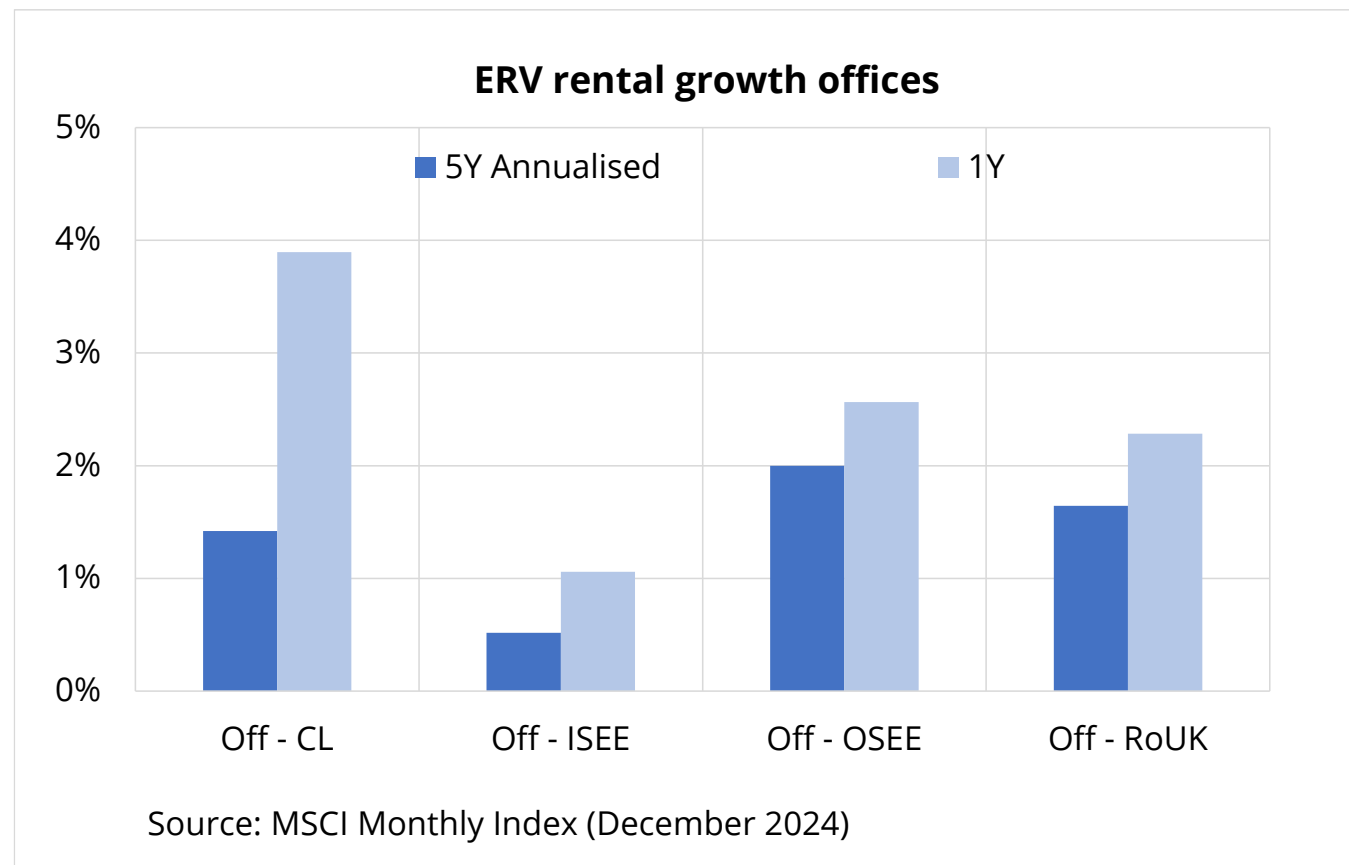
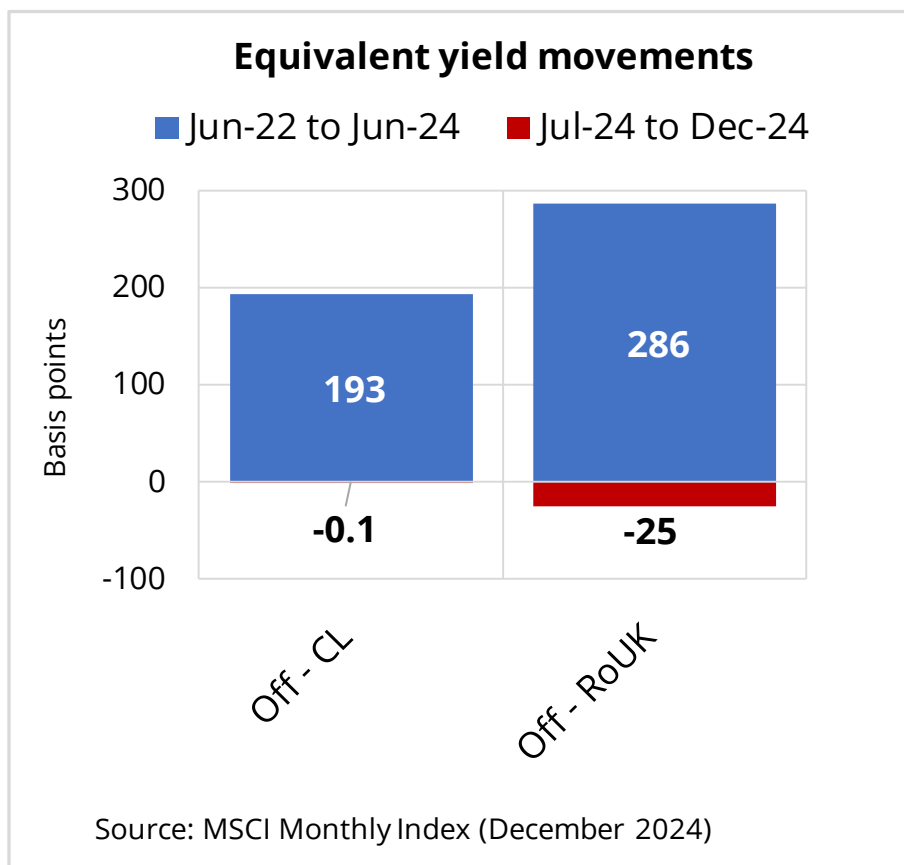
Subprime performance still buoyant in the absence of prime Grade A availability very limited

- 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



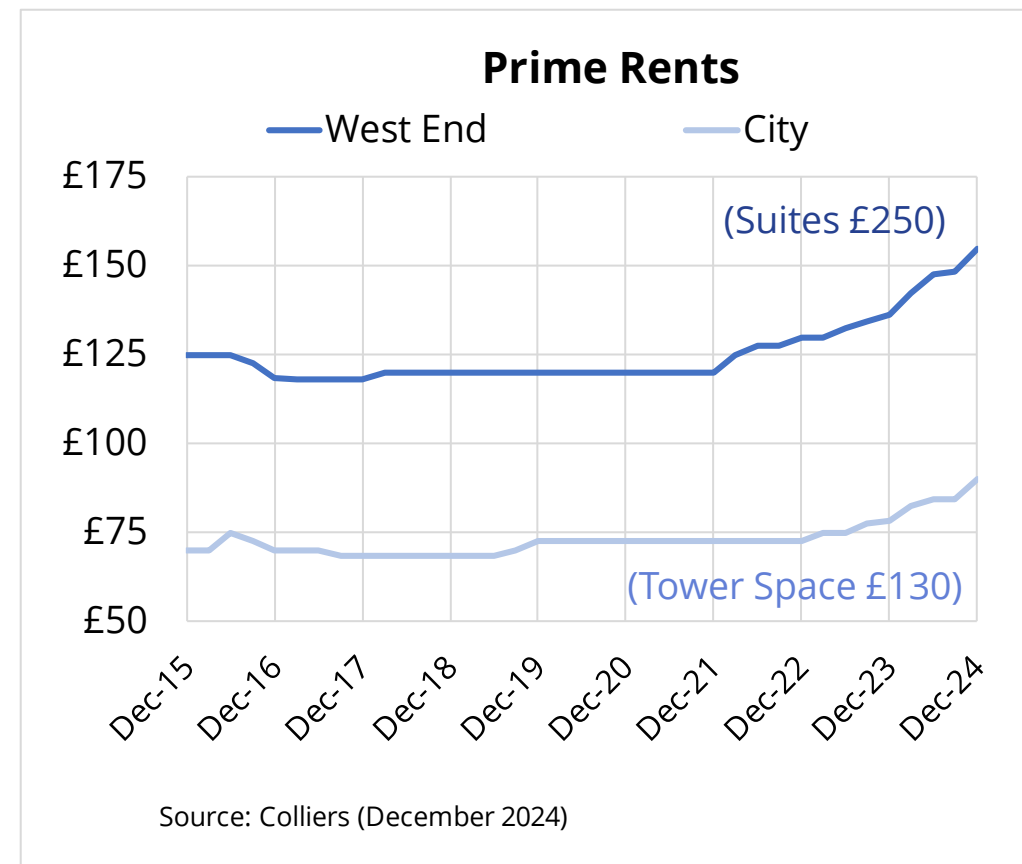
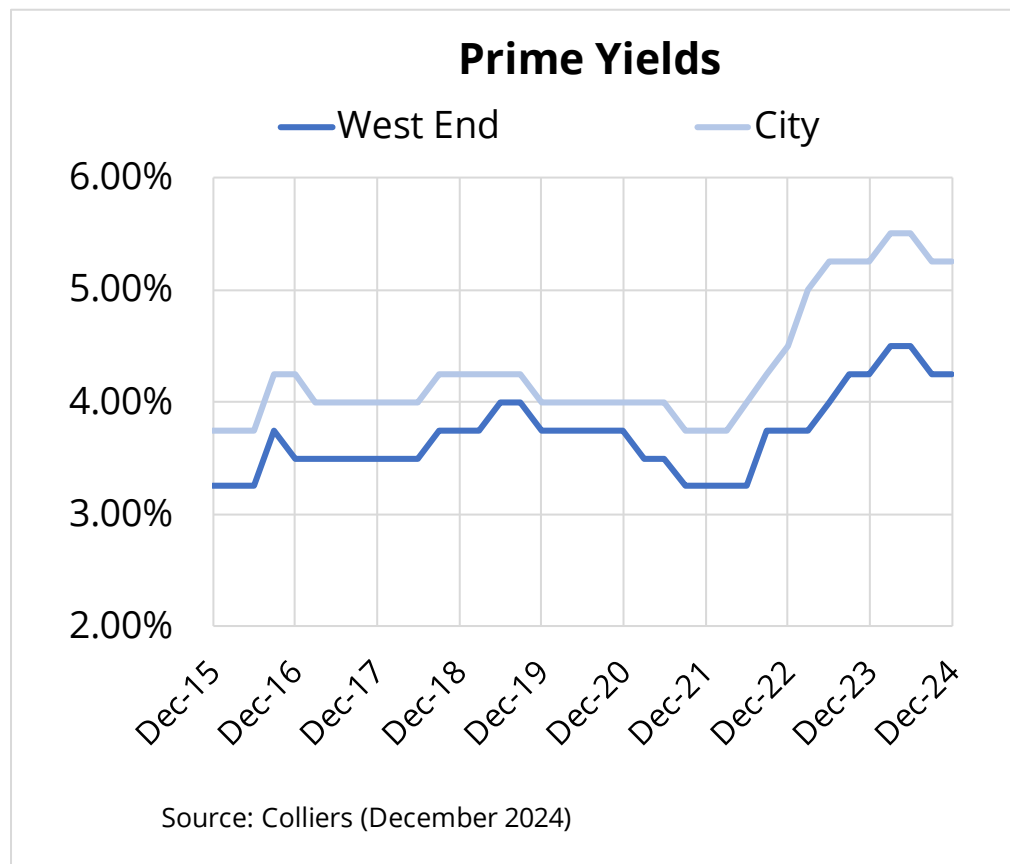
Investors reticent. Buyer/seller expectations mismatched.

Rental growth still evident



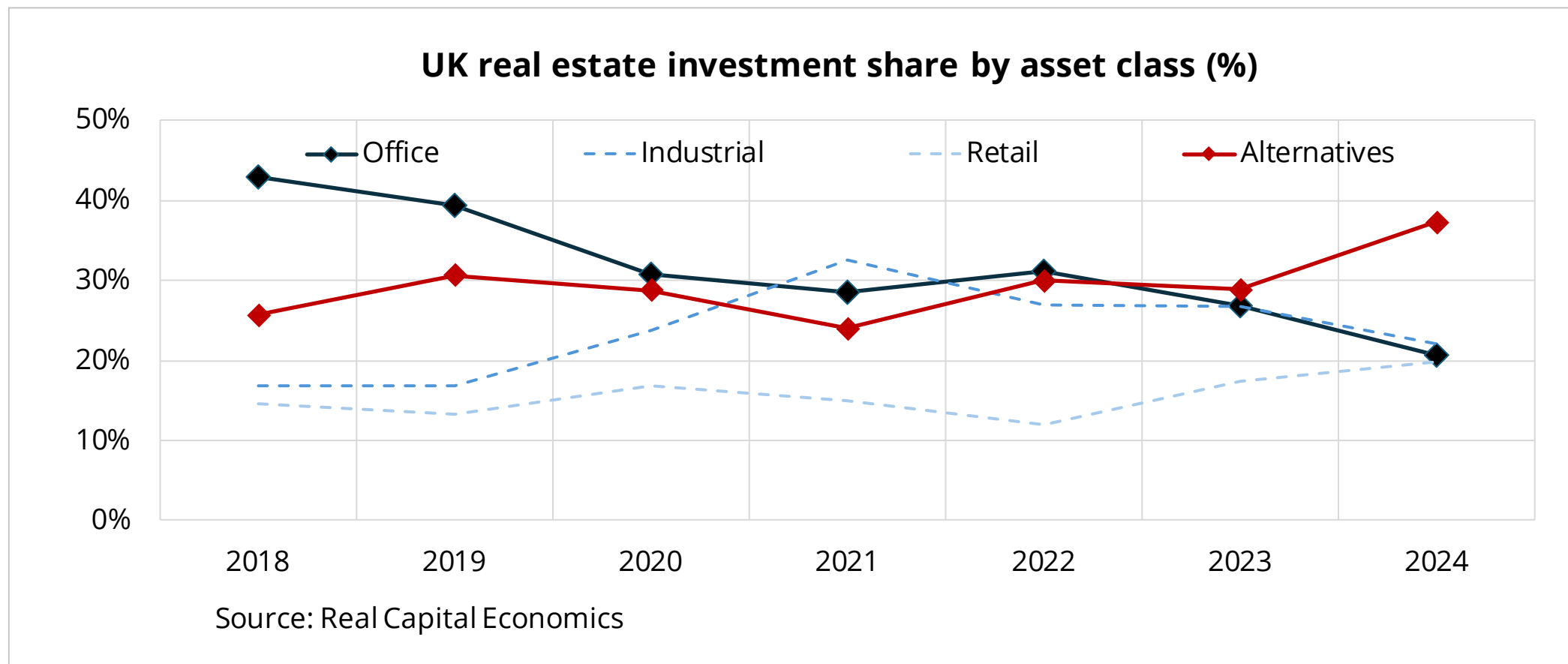
Investors still uncertain about office. Buyer/seller expectations mismatched.

Rental growth still evident



Investors still reluctant on offices

Alternatives are the new 'go to' asset class?





For further information, please contact
Walter Boettcher, Head of Research & Economics
walter.boettcher@colliers.com
+44 07824 691 586

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