

Europe - Real Estate/Property

UK commercial property: overall value decline continued. Industrial stable

Industry Overview

Is UK industrial valuation finally stabilising?

According to the latest CBRE UK monthly index, UK commercial property capital value declined by 0.2% MoM in Feb-24, a similar pace with Jan-24 and is the ninth consecutive month of decline since June-23. Office continues to be the worst performer with -0.6% MoM value decline, followed by retail -0.1%. Industrial has had two consecutive months of a stable valuation (0%), is this sub-sector stabilising (finally)? In retail, high-street retail, retail warehouses and shopping centres saw capital values fall by -0.2%, -0.1% and -0.2%, respectively. The value decline in office was driven primarily by central London offices (-1.0% MoM). Industrials in the South East increased by 0.1% over the month, while rest of the UK at -0.1%. Since peak value in June-2022, overall capital value is down by 22%: -28% in industrials, -25% in office, and -18% in retail.

Rental value +0.1% MoM, lead by industrial

Rental growth stayed in the positive territory but only at +0.1% MoM, also same with last month. Industrials rental growth rate picked up slightly from +0.2% to +0.3% in Feb, whilst office at 0% (vs -0.1% last month) and retail at +0.1% (stable MoM). In retail: high-street retail, retail warehouses and shopping centres had rental value change of +0.3%, +0.1% and -0.2% respectively. Industrial saw a 0.3% rental increase in both the South East and the rest of the UK area.

14 March 2024

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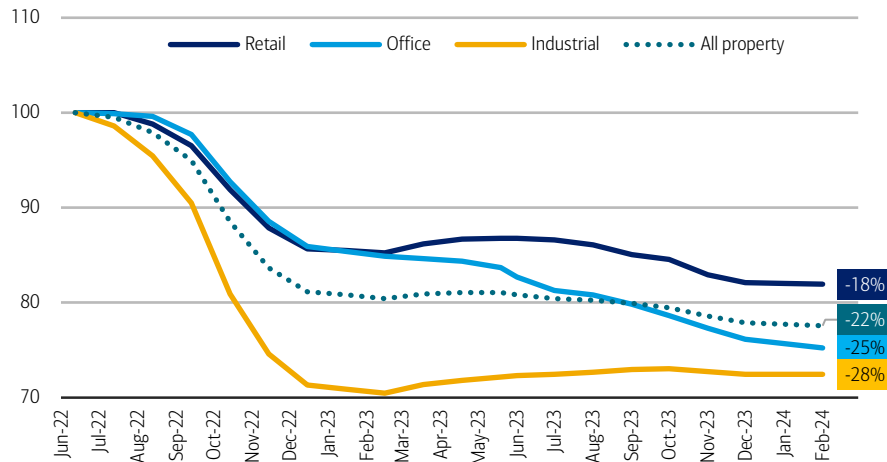
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Exhibit 1: Capital value has been down by 22% overall since June-2022 peak

Capital valuation changes among sub-sectors (June-2022 peak value as base 100)



Source: CBRE, BofA Global Research estimates

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Capital value and rental growth

Exhibit 2: Capital value decline slowed down since the beginning of 2024

Capital value changes among UK commercial property sub-sectors (YoY & QoQ)

	Capital value change															
	FY21	FY22	FY23	1H22	2H22	1H23	2H23	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	Jan-Feb 24
Retail	6.3%	-8.1%	-4.2%	7.6%	-14.3%	1.3%	-5.4%	4.6%	2.9%	-3.5%	-11.3%	0.6%	0.7%	-2.0%	-3.5%	-0.2%
Office	4.3%	-12.1%	-11.5%	2.4%	-14.1%	-3.7%	-7.9%	0.9%	1.5%	-2.3%	-12.1%	-1.5%	-2.3%	-3.5%	-4.6%	-1.2%
Industrial	35.6%	-21.0%	1.4%	10.8%	-28.7%	1.4%	0.2%	6.7%	3.8%	-9.5%	-21.2%	0.1%	1.3%	0.9%	-0.7%	0.0%
All property	13.8%	-13.3%	-3.9%	7.1%	-18.9%	-0.4%	-3.6%	3.9%	3.0%	-5.0%	-14.6%	-0.3%	-0.1%	-1.1%	-2.6%	-0.4%

Source: CBRE, BofA Global Research estimates

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Exhibit 3: However rental growth is muted vs 4Q23

Rental value changes among UK commercial property sub-sectors (YoY & QoQ)

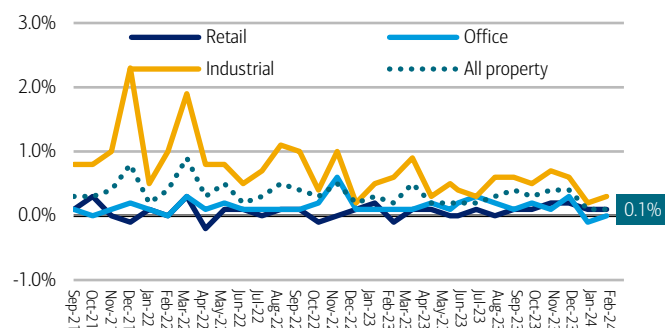
	Rental value change															
	FY21	FY22	FY23	1H22	2H22	1H23	2H23	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	Jan-Feb 24
Retail	-1.7%	0.5%	1.1%	0.4%	0.2%	0.3%	0.7%	0.4%	0.0%	0.2%	0.0%	0.2%	0.1%	0.2%	0.5%	0.2%
Office	0.7%	2.0%	2.1%	0.8%	1.2%	0.8%	1.2%	0.4%	0.4%	0.3%	0.9%	0.3%	0.5%	0.6%	0.6%	-0.1%
Industrial	9.0%	10.3%	6.9%	5.6%	4.5%	3.2%	3.3%	3.4%	2.1%	2.8%	1.6%	2.0%	1.2%	1.5%	1.8%	0.5%
All property	2.5%	4.7%	3.6%	2.5%	2.2%	1.6%	2.0%	1.5%	1.0%	1.2%	1.0%	1.0%	0.6%	0.9%	1.1%	0.2%

Source: CBRE, BofA Global Research estimates

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Exhibit 4: Rental value growth unchanged at +0.1% MoM in Feb-24

UK commercial property rental value growth (MoM)

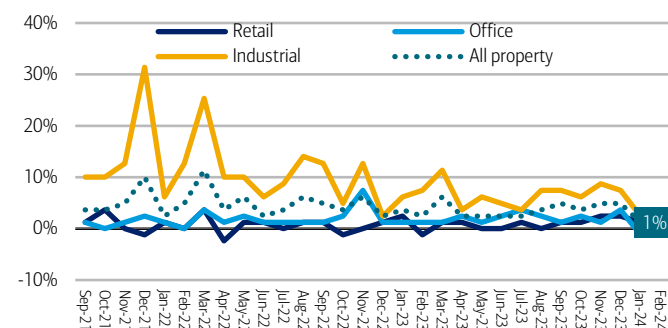


Source: CBRE, BofA Global Research estimates

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Exhibit 5: Annualised rental value growth at +1% in Feb-24

UK commercial property annualized rental growth

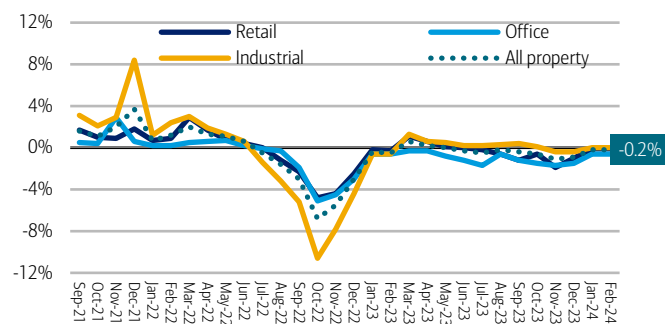


Source: CBRE, BofA Global Research estimates

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Exhibit 6: Capital value decline rate unchanged at -0.2% in Feb-24

UK commercial property capital value growth (MoM)

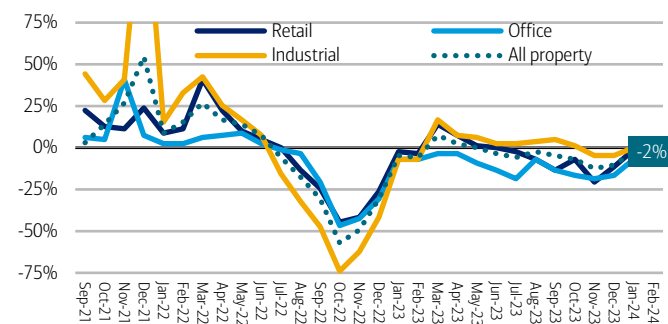


Source: CBRE, BofA Global Research estimates

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Exhibit 7: Annualised capital value growth -2% in Feb-24

UK commercial property annualised capital value growth



Source: CBRE, BofA Global Research estimates

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