

# Commercial Property: Inc Impact of COVID-19 - UK - July 2020

Report Price: £995.00 | \$1343.55 | €1119.77

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“Following a slowdown in the UK commercial property market in 2019, COVID-19 has now introduced significant disruption to the market. The embattled retail sector will be hardest hit by the crisis, with COVID-19 set to accelerate the structural changes already underway.”  
 – Claudia Preedy, Senior B2B Analyst

This report looks at the following areas:

- The impact of COVID-19 on the UK commercial property market and key sub-sectors.
- Opportunities and threats arising from COVID-19 across the key sectors of the commercial property market.
- How the market is expected to develop over the next five years in light of the COVID-19 crisis.
- Trends in investment activity across the key sub-sectors of the commercial property market.

The embattled retail sector is expected to be hardest hit by the COVID-19 fallout, with the capital value of retail property forecast to fall by a significant 20% in 2020. The pandemic is set to exacerbate trends already ongoing in the retail sector, including the shift to online retail, store rationalisation, rise in insolvencies and CVAs and the retrenchment by investors.

All occupational and investment markets are facing disruption as a result of COVID-19 and deal volumes are expected to remain subdued for much of 2020. The capital value of UK commercial property is anticipated to decline by 12% in real terms in 2020, followed by a moderate 1% increase in 2021. However, a wide divergence across the key sectors can be expected.

The pandemic is likely to have a long-term structural impact on the office sector, as more companies will adopt remote and agile working as more permanent policies. Whilst it is unlikely that businesses will look to migrate to a fully remote environment permanently, many businesses will be weighing up the commercial benefits of downsizing their office space.

While the logistics sector will certainly not be immune to the impact of COVID-19, it is well placed to weather the storm. The accelerated shift to online retail will further boost demand for high-quality, well-located warehouse space in the short to medium term. Demand from data centre operators is also expected to increase as COVID-19 is accelerating the digital transformation of business and with more digital data being used and created.

## Covered in this Report

The terms of reference for this Report concern the UK commercial property market, which includes owner-occupied and investor-owned properties. The Report focuses on investors' share of the market.

Commercial property is defined as including retail, offices, industrial premises (warehouses and most types of factory) and 'other commercial' properties typically used for business purposes, such as leisure (cinemas, fitness clubs and gyms, leisure parks, etc), hotels, petrol stations and other miscellaneous types. The Report excludes other commercial property sectors, such as health and education, museums and libraries, sports grounds, courts and prisons, heavy industrial plants, infrastructure and open structures, such as theme parks.

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For the purpose of this Report, the market is segmented as follows:

- **Retail: Shops, shopping centres, supermarkets, retail warehouses, post offices, bank branches, hairdressers and beauty salons, cafés, takeaways, restaurants and pubs, car showrooms and garden centres.**
- **Offices: Offices, business units, data and computer centres.**
- **Industrial: Warehouses and stores, factories and workshops, newspaper printing works etc.**
- **Other Commercial: Bingo halls, bowling alleys, casinos, cinemas and theatres, arenas, concert halls and exhibition centres, nightclubs, hotels, health farms, gyms, sports centres and swimming pools, caravan parks and holiday sites, purpose-built car parks, petrol stations, film, TV and recording studios.**

The investment element of the commercial property market comprises a number of different investor types, which are defined by the Investment Property Forum (IPF) as follows:

- **UK Institutions (insurance companies and pension funds) – Insurance company long-term funds, unit-linked life and pension funds, managed property funds.**
- **UK & Channel Island-domiciled collective investment schemes – Authorised and unauthorised property unit trusts and similar, limited partnerships domiciled in the UK and Channel Islands. Includes Channel Islands property investment companies, but excludes insurance company-managed property funds.**
- **UK REITs and listed companies – Companies listed on the main market of the London Stock Exchange and incorporated in the UK under the REIT and Real Estate Holding & Development categories.**
- **UK private property companies – Other companies undertaking activities classified under the 2007 SIC either as “the development of building projects”, “the buying and selling of own real estate” or “the renting and operating of own real estate”.**
- **UK traditional estates/charities – Charities and traditional landed estates.**
- **UK private investors – Individuals, family trusts, high-net-worth syndicates.**
- **UK other – Mainly local authorities and pub owners.**

Overseas investors – All those domiciled outside the UK and Channel Islands, excluding foreign-owned fund managers, insurance companies and pension funds investing UK sourced capital.

“Rental value” of commercial property refers to the rateable value of property. The rateable value of property is the value at which a property might be expected to be let for one year as assessed by the Valuation Office Agency (VOA).

## COVID-19: Market context

This update on the impact that COVID-19 is having on UK commercial property market was prepared on 7 July 2020.

The first COVID-19 cases were confirmed in the UK at the end of January, with a small number of cases in February. The government focused on the ‘contain’ stage of its strategy, with the country continuing to operate much as normal. As the case level rose, the government ordered the closure of non-essential stores on 20 March.

A wider lockdown requiring people to stay at home except for essential shopping, exercise and work ‘if absolutely necessary’ followed on 23rd March. Initially, a three-week timeframe was put on the measures, which was extended in mid-April for another three weeks.

On 10 May 2020, the Prime Minister announced revised guidance, recommending that people who could not work from home should return to the workplace, and giving people more scope to spend time out of the home. Further relaxations to lockdown rules were announced in the week of 23rd May, including gradual reopening of non-essential retailers, and increased opportunities for social interaction across households. Hospitality businesses were allowed to reopen in England on 4 July. However, “close proximity” businesses, such as nightclubs, indoor gyms, swimming pools and spas, will need to remain closed for now.

## Economic and other assumptions

Our economic assumptions are based on the illustrative scenario included in the Bank of England’s Monetary Policy Report, released on 7th May 2020. The scenario suggests that UK GDP could fall by 14% in 2020, recovering by 15% in 2021, and that unemployment will reach 8% by the end of the year, easing slightly to 7% by the end of 2021. The current uncertainty means that there is wide variation on the range of forecasts, however, and the numbers presented in the BoE’s illustrative scenario are at the more pessimistic end of the spectrum.

We are working on the assumption that a vaccine will be available by mid-2021, but that there will be continued disruption to both domestic and global markets for some time after that.

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As long as there is not a second wave of infections, social distancing measures should be gradually relaxed over the course of 2020, but we don't expect industries such as hospitality, travel and live entertainment to return to any kind of normality until a vaccine is introduced.

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The facts

The implications

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Investment activity slows in 2019

Offices account for nearly a third of UK commercial property market

Retail set to be the hardest-hit sector by the COVID-19 crisis

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London office investment market

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## Overview

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Trade associations

British Property Federation

The Association of Real Estate Funds

British Council for Offices

The Commercial Real Estate Finance Council Europe

The Investment Association

The Investment Property Forum

Trade magazines

Estates Gazette

Property Magazine International

Property Week

Property Wire

Trade events

RICS Commercial Property Conference

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