

High Street On The Up But Lack Of Flood Insurance Could Hit Regional Recovery

Tuesday 28 January, 2014

Demand for retail premises saw sizable increases right across the UK towards the end of last year as economic recovery began to gather pace. However, with today's (27 January) reading of the Water Bill determining that commercial property in flood risk areas will soon not be entitled to compulsory insurance cover, only time will tell what impact this has on regional recovery.

As 2013 drew to a close, demand for shops and industrial units experienced the most marked growth on record* as increasing optimism about the UK economy and more accessible lending filtered through to the commercial sector (net balance 42 percent). However, with the Water Bill dictating that commercial premises will soon not be covered by the Flood Re scheme; it could be that businesses in flood risk areas will not be able to afford appropriate insurance. The consequences of this could see the economy suffer in certain parts of the UK with many businesses unable to afford to continue trading.

Turning to other parts of the commercial market, as demand from potential commercial tenants rose, the amount of available premises decreased, especially in terms of offices and industrial space. Significantly, this is the first time in almost nine years that every part of Britain has seen availability of commercial property dip. One concern raised by some members is the diminishing stock of offices as owners look to convert to residential in some areas. This is seen as having the potential to drive rents higher in parts of the country.

Looking ahead, expectations for rent levels over the course of 2014 revealed a net balance of 55 percent more surveyors expecting rent levels to increase throughout the year. Respondents forecast rents will rise by just under three percent in the office sector, roughly five percent in the industrial sector and just over two percent in the retail sector.

Simon Rubensohn, RICS Chief Economist, commented:

"The economy ended 2013 on a much more positive note and this was reflected in stronger demand from tenants for shops, offices and industrial space. The more upbeat picture is even beginning to filter through to rents although the improvement is still fairly tentative in most parts of the country. However, if economic momentum continues to gather pace we would expect the recovery in the commercial property market to gain further traction particularly given our suspicion that interest rates will remain on hold for a while to come."

Jeremy Blackburn, RICS UK Head of Policy, commented:

"While signs are much more positive for the commercial sector it was disappointing to see that the government are going to allow the Water Bill to pass without reference of commercial premises and business owners' rights to affordable insurance cover. Due to the government's failure to bring in adequate insurance provisions to protect the likes of shops and offices in flood risk areas, we could well see smaller local economies hit hard."

- Ends -

*The RICS UK Commercial Property Survey dates back to Q3 1998

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