

Industrial Building Drives Construction Growth - RICS UK Commercial Market Survey, Q3 2014

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Industrial building drives construction growth

RICS UK Commercial Market Survey, Q3 2014

- UK sees sixth consecutive quarterly decline in office space availability;
- Office and industrial sector rents expected to rise at the fastest rate since 1998 over next quarter;
- One in five say more than 10% of office space in the capital is being earmarked for residential conversion;

Nationwide availability of office space has declined for the sixth consecutive quarter and is doing so at its fastest pace since the late 1990s according to the latest RICS Q3 Commercial Market Survey.

The rise in transactions of commercial properties being sold with Permitted Development Rights (PDR) appears to be compounding the lack of availability, with 2/3rds of respondents to the survey suggesting that if PDR exemptions are not extended then availability of commercial properties will be impacted further.

In London, 20% of respondents said PDR transactions had led to more than 10% of available commercial properties being earmarked for conversion into residential use and a net balance of 51% of surveyors reported a rise in demand for office, industrial and retail space.

Across the whole of the UK, 32% more surveyors said availability across office, retail and industrial properties had fallen, while demand had risen to a net balance of 44%. Significantly, demand for industrial property grew on the previous quarter (from a net balance of 49% in Q2 to 56% in Q3) and surveyors in London also saw a large rise in prospective overseas investors in the industrial sector (73%).

The picture across the UK appears increasingly upbeat, with the firmer tone spreading beyond the capital as the economic expansion gains greater traction. This is being reflected in rental expectations which are now in positive territory in all parts of the country in the office and industrial sectors. Retail remains something of a laggard with a flatter rental trend away from the more dynamic parts of the market.

For the next 12 months a net balance of 71% surveyors are forecasting an increase in rent levels in London across all segments of the market, compared to 36% in the North of England.

Simon Rubinsohn, RICS Chief Economist, commented:

"The Q3 results provide further evidence that the economic expansion is becoming more broadly based with tenant demand for space picking up in all parts of the country and the need for landlords to provide inducements diminishing. There are also now clear signs that investors are casting their nets wider in a bid to find better value in the market following the steep drop in yields on prime property in the capital.

"While permitted development rights is helping in a small way to boost much needed housing supply, the latest survey suggests that it is also having the unintended consequence of contributing towards a shortfall of office space in some parts of the country. Feedback from members suggests that this is particularly marked in London and adding to the upward pressure on rents. Moreover, there is a belief that this problem will become more pronounced if existing exemptions are removed."

- Ends -

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

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