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The post-pandemic outlook of the UK commercial property market

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Almost every industry felt the impact of Covid-19. The commercial property market was no exception.

Social distancing, remote working and multiple lockdowns forced businesses to move their operations online almost overnight back in March 2020. Shops and restaurants had to close, and much was said about how reduced footfall was having a negative effect on the commercial property market. In short, towns and cities were deserted, and the commercial real estate sector faced a crisis.

Indeed, official figures in 2021 suggested high streets could suffer between 20% and 40% losses on their retail offerings as a result of the pandemic. For the hospitality and retail sectors, the pandemic was particularly difficult. With 2,200 retail sites closing in 2020 alone.

Fast forward two years and the commercial property market has rebounded remarkably well. Towns and cities have come back to life in the past 12 months, creating new opportunities for property investors. Private and institutional investors are now looking to the commercial real estate sector once again.

Recent data shows approximately £57 billion was invested into the commercial property market in 2021, marginally superseding the five-year average. In 2022, Savills predicts this level of investment will rise by 10%, reflecting returning investor confidence in the commercial property market.

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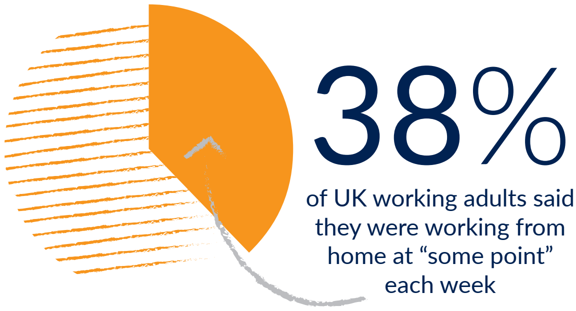
As such, this may be opportune moment to consider the future trends that could shape the commercial market in a post-pandemic world.

Competition for prime office space

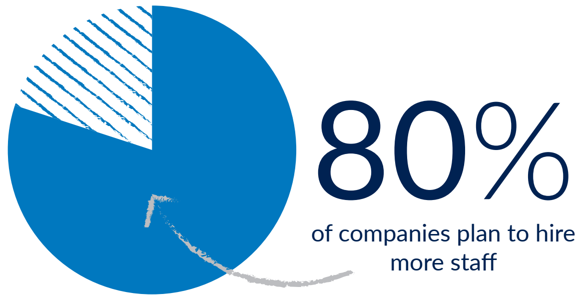
"The concept of 9-to-5 in the office five days a week is gone – the keyword is going to be flexibility," **wrote Larry Fink**, American billionaire and businessman. In many cases, flexibility has come in the form of hybrid working: a split of days spent working remotely or in the office.

In May 2022, **38%** of UK working adults said they were working from home at "some point" each week. For many employers, the challenge has been encouraging staff to return to the office.



Indeed, with employees only using the office for a few days a week, businesses will be keen to provide their staff with the best possible space to carry out their work. By doing so, they will be hoping to tempt them to leave the convenience of their home and back into the office with more regularity.

Therefore, many companies will be competing for offices with employee benefits like an in-house gym or café, driving up demand in the sector.



On top of this, many businesses are looking to increase the size of their workforce. With **80%** of companies planning to hire more staff, firms will look to the commercial property market to provide the floorspace they will need for expansion.

As such, **demand for prime office space is rising around the UK.** In big cities like Manchester, Leeds and Glasgow, this trend will be particularly prominent in the next few years.

Commercial property investors could consider how changing demand for office space – how much businesses need and the type of space they are looking for – will open new opportunities for those able to cater to these trends. This might involve renovating existing office buildings.

Increasing demand for technology

A necessary by-product of the proliferation of hybrid working will be an increased focus on technology. If businesses are to successfully integrate remote and in-office working, they will need the tools and equipment to be able to do so.

From online collaboration tools to video conferencing software that can connect multiple people on calls, a recent survey found that **three quarters** (75%) of businesses will invest or partner with property technology businesses.

75%

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In some cases, businesses will expect their landlords to provide this technology, which may require some investment from commercial property investors.

As such, a future trend in the commercial property market will be the implementation of smart technology in commercial offices, particularly offices and flexible workspaces, allowing businesses to seamlessly switch between online and in-office working.

Repurposing and converting spaces

Despite these positive trends, some investors will recognise that their commercial properties could be more profitable if converted.

With around **40,000** vacant retail units in the UK (which is expected to double by 2026), there is a growing trend of non-office properties, such as hotels or former industrial buildings, being transformed into residential dwellings.

On top of this, these properties are often built to include shops or restaurants at ground level, improving the profitability and value of the original property.

As such, a similar trend could emerge in the commercial property market. For example, a landlord with a disused office space might change its use to a gym, bar or other type of commercial unit.

In areas with high footfall, this could be especially lucrative. Indeed, in this area in particular, MFS has vast experience.

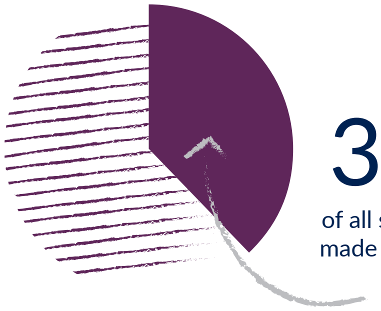
CASE STUDY:
Commercial club in Wales converted to a residential property using a bridging loan

Loan Amount:	Property Value:	LTV:
£170,000	**£235,000**	**72%**

Demand for storage will grow

One thing that has become clear during the pandemic, as well as during the war in Ukraine, is that supply chain issues can hit businesses across the UK. With no sign of this disruption being alleviated any time soon, it is predicted supply chains will not return to historic levels until 2023 at the earliest.

Alongside this trend, online shopping has become ever-more popular during the pandemic. In 2021, for example, online retail sales accounted for as much as **37.7%** of all sales in the UK.



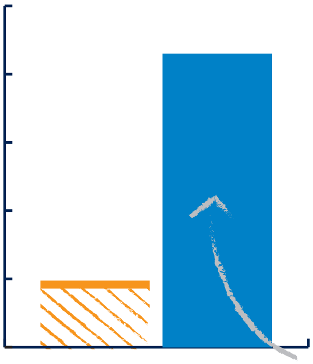
37.7%
of all sales in the UK were made by online retail sales in 2021

In the commercial property arena, the demand for storage space is only going to increase as businesses grapple with supply chain issues and online shopping demand.

This is reflected by the last 12 months, where industrial and logistics commercial properties thrived. Driven by growth in rental prices and increasing demand, the market for storage space has enjoyed returns of **36%**.

With this in mind, a trend could emerge that sees investors converting commercial spaces like offices into storage facilities.

Localised retail



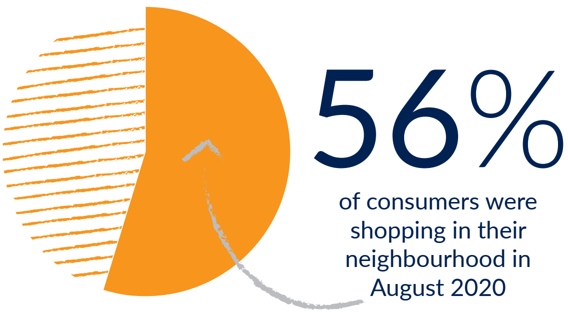
3.3%
percentage point increased in unit closures across the UK as a result of COVID

For a few years now, much has been said about the decline of the British high street. Even before Covid-19 made the headlines, the value of retail rentals was under the microscope.

City centres, which were profitable pre-pandemic, suffered the biggest losses as a result of COVID-19, with a **3.3 percentage point increase** in unit closures across the UK.

While high street commercial property values continue to stutter, there are some areas that provide cause for optimism.

As a result of lockdowns, suburban areas have enjoyed rising demand from people favouring closer, smaller shops over larger supermarkets. On top of this, the remote working trend has given people more time to visit their local shops on a more regular basis.



In fact, in August 2020, **56%** of consumers were shopping in their neighbourhood, while a further **79%** said that they would continue shopping locally in the long-term.

Consequently, local, independent shops have managed to maintain their levels of footfall, with the trend set to continue post-pandemic.

The rise of the pedestrianisation of local high streets has also contributed to this. In short, it has allowed cafés and restaurants to offer outdoor seating to grow their revenue, as well as increasing footfall for other commercial properties.

Therefore, as independent businesses grow, and new businesses are encouraged by the refreshed buoyancy of some local high streets, localised retail spaces are likely to increase in demand.

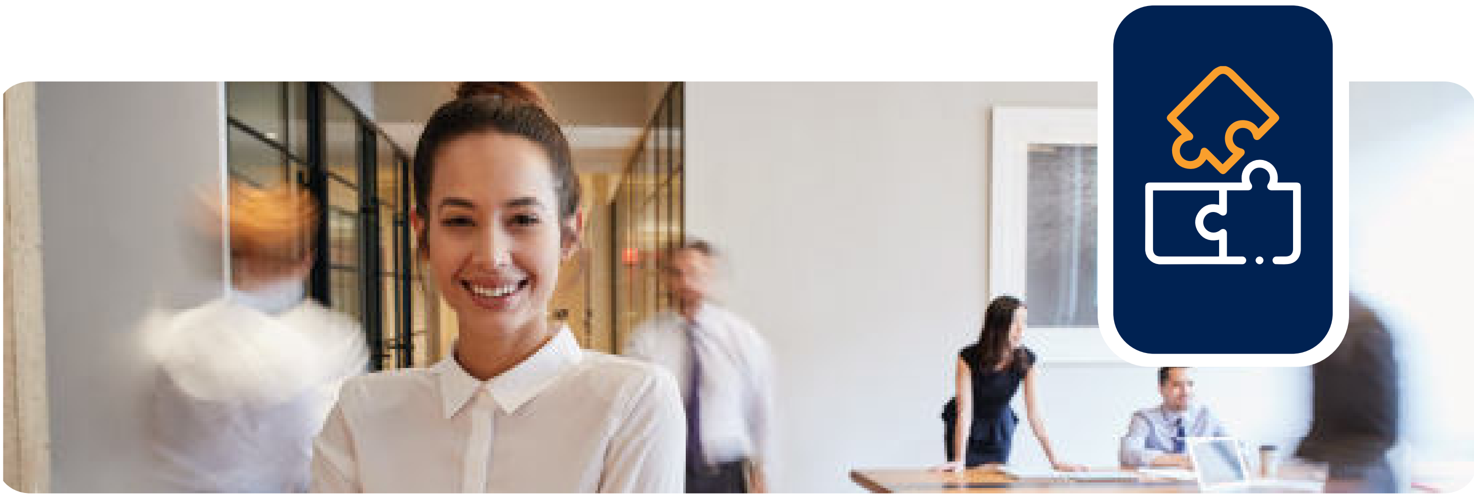
How MFS's flexibility can help commercial property investors adapt to these trends

What these trends show is there is much for commercial property investors to consider when assessing their options.

Further, acquiring finance for commercial investment can prove complex. So, investors should carefully consider their financial options before embarking on a project.

Here at MFS, we consider all applications on a case-by-case basis. By underwriting from the start of the application process, we are able to take on projects other lenders might shy away from. It also ensures a smoother, faster, and more transparent service.

No loan is too complex for us to deliver, due to our experience, expertise, and flexible approach.



CASE STUDY:

MFS completed £6.6m bridging loan for North West shopping centre	Loan Amount:	Charge Type:	LTV:
	£6.6M	1st Charge	60%

A broker and client that MFS had provided a loan to earlier this year returned requiring fast finance for the large commercial asset in Greater Manchester. The client was also completing the purchase via a private company.

The shopping centre was a mix of tenanted units, some of which were vacant. The commercial property was larger than the previous asset MFS had enabled the same client to purchase.

However, MFS knew the client history of purchasing such properties, as well as their capability and credibility when investing in shopping centres.

While some of vacant units may have discouraged other lenders, MFS trusted the broker and borrower based on their expertise within this field. We also uncovered that the largest unit on the ground floor had a longstanding lease until 2070, and while that tenant had seen their trading slowdown of late, the client informed MFS a potential buyout was on the table.

There were also minor concerns over the age and condition of the property. MFS called upon its valuation panel., andwe found a valuer with previous experience with these types of commercial properties.

When MFS received the valuation report, the company was comfortable the asset remained a low risk, boosted by the fact it had recently undergone a thorough refurbishment.

We looked at the bigger picture, including their previous success when investing in other shopping centres. Our team utilised their expertise to overcome potential obstacles which arose along the way and provided our client with a fast loan of £6.6 million, not to mention a high-quality service.

How MFS' speed can help commercial property investors finalise deals

The UK property market is competitive. Driven by undersupply and increasing demands, many investors might struggle to complete a purchase if they cannot acquire finance at speed.

Here at MFS, we pride ourselves on our ability to complete the application process and deliver a loan within days.

CASE STUDY:

Large commercial bridging loan for a fast purchase

Loan Amount:	Charge Type:	LTV:
£4.4M	**1st Charge**	**44%**

One of our previous brokers came to us for assistance for his high net-worth client who needed fast finance to meet a tight deadline.

Needing to raise capital for a new commercial investment opportunity in Central London, the client had vast experience in the commercial market along with two nearby, large offices to provide loan security.

As such, MFS were able to provide bridging finance with a relatively low loan-to-value rate, despite the considerable size of the loan required.

With the property being a commercial asset, the dedicated MFS underwriter assigned to the case worked swiftly. Being an office building, our underwriter set to work reviewing the leases in place.

Using our vast panel of valuers, we were able to get one of our panels round to the property quickly. Due to the tight deadline, were able to speak with our valuer to ensure we could get the report promptly. Despite the size of the assets, the valuer was able to send through the valuation report covering both commercial properties within five working days.

Due to our diverse panel, we were able to find a valuer that would be able to conduct the valuation within our client's timescale. Our long-standing relationship means on the occasions where speed is vital, we can trust our partners to complete by our restricted timescales.

Having access to several funding lines also allows us to provide large scale bridging loans with speed and certainty.

The view of our CEO

Certainly, the last couple of years have been difficult for the commercial property market. With many city and town centres suffering significant losses, with offices, retail outlets and hospitality venues forced to close, many investors might have been disinclined to entering the sector.

However, as we move on from the pandemic and a sense of normality returns, it is clear that there is some considerable space for growth in the commercial property market. Whether an investor wants to repurpose a building to turn into a warehouse, renovate an old hotel to turn into flats, or commit to a premium office space in a prime location, access to fast and flexible finance is key to making an investment opportunity successful.

Indeed, providing large loans for commercial investments like shopping centres or office buildings will often present lenders with some unique challenges, but MFS's speed and flexibility allows us to handle all manner of enquires. As such, we are able to assist investors and their brokers to find the best possible solution for their situation, regardless of how complex the circumstances might be.

Paresh Raja,
CEO of Market Financial Solutions

Contact us today to arrange your fast, bespoke specialist finance:

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