

Caxtons' Property Market Outlook

While only 18 months have elapsed since the start of the pandemic, the crisis has dictated the property market since its arrival in the UK. The acceleration of structural changes already underway has redefined sectors and market expectations, with some surprising outcomes, in particular in the residential market. With the benefit of another year, a picture of the future landscape is starting to form, but is by no means clear.

The Kent property market has largely mirrored the national picture, but with its own unique overlay. Relatively affordable housing, a varied landscape, open space and beaches have drawn new residents and visitors alike. The experience of each town across the county has differed but the crisis has focused minds on the future aspirations. This vision will be essential as we collectively recover.

Current expectations suggest the UK economy will have returned to pre-pandemic levels by the end of 2021. Clearly, this bounce back masks an incredibly challenging period which will have social and economic implications for some time to come. However, the outlook does appear more positive than this time last year.

Nationally the Investment Property Forum (IPF) Survey of Independent Forecasts suggests the total return from property will reach 6.9% in 2021, a marked improvement on the previous year when returns were in negative territory. This uplift in performance is driven in large part by an uptick in expectations for capital value growth as investors' concerns about the property market ease a little, albeit with significant variations across the sectors.

Rents, on average, are expected to keep falling, with the retail sector remaining the largest contributor to the decline. The industrial sector has bucked the market trend throughout the

6.9%

UK property total return forecast for 2021

Source: IPF Survey of Independent Forecasts for UK Commercial Property, September 2021



Trilogy, Sittingbourne.

pandemic and continues to do so with expectations, at a UK level, of robust rental growth over the next four years.

Certainly, the Kent distribution market has again performed well with significant lettings on the new stock coming forward. Intense levels of activity seen over recent years had driven a sharp uptick in rental growth, narrowing the margin somewhat with other outer M25 locations. However, the county remains relatively affordable, particularly given the links to the EU which remain vital to distribution networks. Over the last 12 months rents have continued to rise and as retailers and distribution operators await schemes being brought forward, further pressure on rents is likely. This potential has driven growing institutional investor interest in Kent's industrial and distribution market.

Kent's business and science park market has remained active over the last 12 months, with both new lettings and renewals recorded. This has kept rents stable across the county's

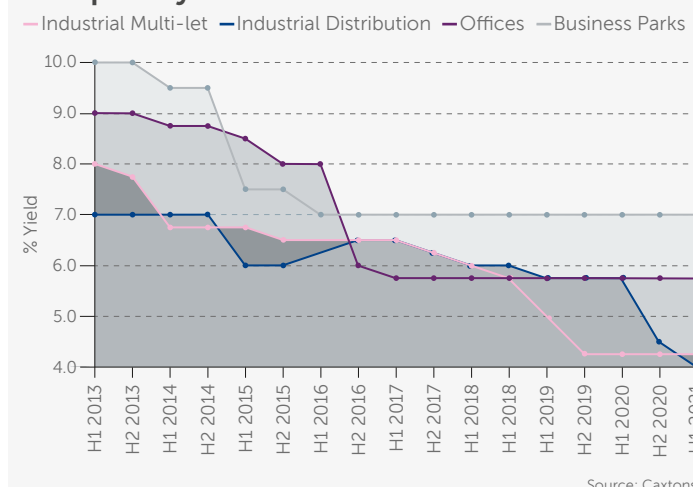
4%

Intense demand pushes prime yield for Kent multi let industrial assets to historic low

parks. Locations such as Discovery Park, Kent Science Park and Kent Medical Campus have benefited from a strong interest in the life science sector. However the traditional business park markets have also retained tenants and in some cases secured new lettings, with companies in the professional and business services sector combining with a burgeoning technology market. Parking and a greater control of office environments have remained attractive to many tenants and businesses seeking new or expansion space will again find limited options over the coming year. Positively however, the medium term will see new stock coming through.

The low pace of lettings seen across Kent's town centre office market have perpetuated in 2021. While some workers are returning to their offices, many companies are taking a wait and see approach, reviewing their longer term occupational strategies. The county's serviced office and

Kent prime yields



Source: Caxtons

co-working providers have benefited from this uncertainty, delivering the flexible high quality space in demand by a range of businesses. It is possible less floorspace will be required longer term, but quality will remain important. There are concerns over the loss of larger floorplate stock to residential use. Fortunately some of the county's regeneration schemes will provide some limited grade A buildings which will be essential for attracting and retaining businesses in the high value knowledge industries.

The retail sector continues to struggle, with high street vacancy rates remaining elevated across the county. As the dust settles from the pandemic, the true scale of the structural change that has occurred since spring 2020 will become clear. Kent's towns have seen mixed fortunes. While rents are down across the board, new lettings have occurred and greater vibrancy is evident in some commuter towns. The retail warehouse sector has seen less impact from the pandemic crisis and the IPF Consensus Forecasts show a marked increase in rental growth expectations for the sector when compared with this time last year.

As reported nationwide, the pandemic has had a positive but unexpected impact on the residential market. On average, prices in Kent rose by close to 6% by the end of the second quarter, well ahead of 2020. This growth has narrowed the disparity in values with the rest of the South East. Nonetheless the county remains, on average, a relatively more affordable

UK Total Return IPF Consensus Forecasts, average over 2021/25 period



Source: Investment Property Forum Survey of Independent Forecasts for UK Commercial Property, September 2021. Forecasts derived from 23 leading fund/investment management houses and consultancies



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location in the home counties. Increased demand as households sought space and gardens has depleted supplies of new homes, spurring housebuilders to bring forward construction timetables and replenish landbanks.

The property investment market has remained relatively thin although deals have been achieved across all the sectors. Overall, the Caxtons' Prime Yield Series shows a stable picture despite the uncertainty of the last 12 months. The exception to this pattern is the industrial market, where intense investor demand, reflected in the Kent market, has driven down yields further over the last year.

Given greater pricing stability and the prospect of rental growth in some markets, the IPF Survey of Independent Forecasts suggests total returns to investors on a UK wide basis will average 6.3% over the period 2021/25. This is twice that projected at this time last year, a clear reflection of the turnaround in expectations.

We are not out of the woods, but in the 2020 report we argued that property can be part of the solution for the future in Kent. If we look to some of the successes over the last 12 months, whether in the public or private realm, this point is evidently true. New buildings, new companies, new homes and new outdoor space are all positive signals of a better future ahead.