

## Road to Recovery: Are Things Looking Up for the UK's Office Sector in 2023?



The end of 2022 was a rough time for the UK's office sector and UK commercial real estate (CRE) in general. As a recent Irish Times article, quoting data from CoStar points out: "Sales of offices in London essentially stopped during the final three months of 2022... Dealmaking in the sector fell a whopping 88 percent compared to the previous quarter, to about €450 million."

The major catalyst of this drop-off was the disastrous 'mini-budget' speech that led to analysts like Goldman Sachs declaring that UK CRE in general was in for a large-scale crash.

Now, after 2023's first quarter, the question that's top of mind for many CRE professionals: is there recovery in the cards?

### Performance Despite Headwinds

As a starting point, it's worth comparing some figures from 2022's final quarter. While sales in London's office market did suffer at the end of last year, leasing activity stayed relatively strong. For example, recent data from Statista shows that the uptake of office space in the city hit nearly 3 million square feet in Q4 2022. And while the numbers certainly show fluctuation, the overall trend upwards from 2020 is clear.

At the same time, additional Statista data shows that office investment in London overall also climbed to pre-pandemic levels last year – though they note that: "This was mostly due to a record-breaking first quarter."

## Road to Recovery: Are Things Looking Up for the UK's Office Sector in 2023?

In other words, while the events of Q4 were certainly a blow to the market, the jury's still out on what the lasting impact of those events will be when we consider long-term trends.

### Sentiment Flagging

What we do know is that there have been sentiment impacts across UK markets. Business News Wales reports that office rents in Wales are expected to decline over the next few months and that interest from investors is also sharply waning.

Michael Bruce, Director of Commercial Property for DLP Surveyors in Cardiff, puts it like this: "Many occupiers [tenants] appear to be taking a far more cautious approach and are delaying any possible expansion plans until at least Q1/Q2 2023."

He adds that, given prevailing economic pressures, Q2 of 2023 "may still be seen as optimistic to see any real improvements in the economy."

Investor sentiment seems to be equally subdued in Scotland, though at least some commentators are still hopeful that 2023 will be a good year for CRE in the country, citing several large office deals in 2022 as "a sign of the confidence in Scotland's office sector."

### Broader Context

As we look at these predictions, it's worth recalling that the office sector still falls within the framework of the larger prevailing economic environment facing UK CRE. As Reuters, reporting on MSCI data, points out: "Returns on British real estate fell 11.9% in the fourth quarter of 2022, marking the largest quarterly drop since 2008."

Given that context, there are still many questions around how, and when, an office recovery might unfold.

### Opportunities in Office

Keeping all of these broader trends in mind is helpful to contextualize the current UK office outlook. Equally important, however, is remembering that those trends can't speak to the reality on the ground across all of the UK's diverse and vibrant metros.

For savvy CRE professionals and investors, finding great opportunities in challenging markets is often a case of 'being in the right place at the right time,' and positioning themselves to benefit from future recovery.

As always, our top advice remains to keep fundamentals firmly in mind and to tap into local advice when considering an investment in the UK office sector.