

# What lies ahead for commercial property in 2008?

**Hindwoods continue to closely monitor the supply and demand for commercial property in Kent and South East London. Our experience for Q1 2008 is that the market remains active with the volumes of lettings and sales in the occupational sector (as distinct from the commercial property investment market) remaining consistent with the trend over the last five years.**

The economy continues to grow, albeit at a slower rate, but what lies ahead in the commercial property sector for 2008?

Much depends on the overall performance of the economy. It now seems clear that consumer spending is reining in – this is likely to continue as the majority of households become under increasing pressure from rising food and energy costs, Council Tax, mortgage increases and increased costs of motoring.

On the positive side, however, many companies continue to post strong gross operating surpluses, which have increased by 8.3% year on year. Also, the news from exporters remains promising and rising exports now account for 33% of UK growth according to recent figures released by Royal Bank of Scotland.

The effect has been to halve the balance of payments deficit and is seen as part of the necessary re-balancing within our economy, aided by a predicted fall in demand for imports by consumers.

The Governor of the Bank of England points to a slowing in growth but has also signalled more aggressive cuts in interest rates. It is a fair guess that there will be another quarter per cent reduction in interest rates on the 10th April, 2008.

There is no doubt the "credit crunch" has a major effect on the banking sector and the property investment sector and our colleagues in the industry are having difficulties funding substantial debt backed acquisitions. However, it remains to be seen how serious these reverberations will be felt in the "real economy" which underpins the occupational property market. Our feeling is that there will be implications yet to take effect.

Two further specific changes having a direct effect on the commercial property market are:-

- 1.Changes to business rates and
- 2.The introduction of Energy Performance Certificates.

Vacant industrial and warehouse property now attracts full rates after the property has been vacant for six months – previously they did not attract rates at all. There have also been changes affecting office and retail property – they now attract full rates after they have been vacant for just three months.

Over the next six months Energy Performance Certificates are becoming mandatory for commercial property. Buildings will be given a score based on the consumption of energy.

The information should give occupiers and investors alike a ready means of comparing a major component of the running cost of one building against another. However, there is an additional layer of bureaucracy imposed that will slow down transactions and add to the costs of letting and selling commercial property.

Received wisdom is that 2008 will prove a challenging year. Certainly the market has slowed down but there is no sign yet that the occupational sector has gone into reverse. The next 3 months will tell whether the "real economy" will be buffeted by the banking crisis but our message is don't panic yet.

Hindwoods provide advice on all aspects of commercial property and anyone considering buying or selling commercial property in Kent or South East London are invited to contact:-

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