



More offices to be converted to housing as commercial sector demand falls

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As the global pandemic continues to take its toll,

RICS has said the Scottish Government should enable

more offices to be converted to housing as commercial sector demand falls.



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The call comes as the Q2 2020 RICS Commercial Property Survey results predictably point to a further deterioration in conditions in



deterioration in conditions in Scotland.

In Q2, a net balance of -66% of Scottish respondents reported a decline in occupier demand. Each sector covered saw a fall, and although the decline in tenant demand was most felt in retail and office space, net balances of -92% and -82% respectively, a fall was also seen in demand for industrial units, with 23% more respondents in Scotland seeing a decline. This is the first time that the industrial series has seen a negative response since 2016.

Given the economic fallout and lack of demand from tenants and business, the near-term outlook for rents is now negative across the board in Scotland, deteriorating further since Q1. A net balance of -93% of Scottish survey participants expect retail rents to decline in the coming three months, the poorest reading since 2008. In the office sector, a net balance of -64% are predicting a further fall in rents.

Looking further ahead, twelve-month rental expectations in Scotland have fallen further, with a net balance of -55% of respondents.

Although interest in retail, in general, has fallen, some anecdotal evidence in the survey points to opportunity and interest in secondary units, in some instances perhaps due to the potential for conversion to housing as well as appetite from some independent businesses looking for space in local highstreets. This is perhaps indicative of a broader shift around commercial location in the wake of the pandemic.

When respondents were asked if they felt demand for office space in suburban locations may rise in place of

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urban centres over the next two years, 64% felt this shift would occur.

This not only suggests there could be some significant changes in store for the office sector moving forward, but also interestingly, a potential driver for regional high streets. Anecdotal evidence also suggests there will also be a shift to higher quality office space, with more focus on well-being and sustainability.

Gavin Anderson of DM Hall Chartered Surveyors in Glasgow, said: “Over the past three months, there has generally been a hiatus in the commercial property market in Scotland. Transactional activity should hopefully pick-up once lockdown restrictions are lifted, but transactional volumes are likely to be down on last year. Recovery profiles will vary from sector to sector and inevitably there will be a repricing of some assets, particularly in the retail and hospitality sectors.”

Hew Edgar, head of UK government relations, added: “With any downturn there can be an opportunity, and the Scottish Government must also look to replace uncertainty with stability; and fill the middle of the commercial sector polo mint. Offices and shops in city centres need support as people stay away from their normal workplace, and although local shop hubs are benefitting, the market must be addressed as a whole.”

“However, the reduction in demand for office space in some locations in Scotland could be used to counter demand for housing. One route – trialled by the UK Government - is through permitted development rights, which can increase the delivery of new housing

by reducing regulatory burdens. The recent loosening of PDRs, however, is not right and have raised concerns around substandard homes, including building and space standards, all of which were highlighted in a 2018 RICS report. Regulatory safeguards would be needed to ensure quality is not bypassed.

“Scotland’s PDR regime is more stringent, so as an alternative, it should be made easier to deliver viable office-to-residential schemes through the planning permission process. This would maximise the existing asset base in a sustainable way, providing affordable homes in close proximity to pre-existing facilities while contributing towards community and wellbeing.

“New community hubs, developed through repurposing and reusing building stock, would be greener, will support supply chain management in construction, and would kick start SME activity. All of this would contribute to a stronger and quicker economic recovery.”

Commenting on the overall UK market, **Tarrant Parsons, RICS economist**, said: “The latest survey feedback unsurprisingly reflects the significant disruption and uncertainty that emerged across the economy during the lockdown period. With demand from both occupiers and investors falling sharply, respondents now anticipate rents and capital values will come under downward pressure while the market adjusts to a drastically changed economic environment.

“In particular, the recent shift into remote-working

raises many questions across the office sector, with respondents expecting businesses to re-evaluate their office space requirements over the next two years. On a brighter note, the outlook is already showing signs of recovery across industrial sector, which remains set to benefit longer-term from an acceleration in the growth of ecommerce.”

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