



## How a Strengthening UK Economy Impacts the Factors that Drive the Commercial Property Sector

Over the past few years, a combination of **three factors** has created an ideal climate for foreign investment in the UK Commercial Property market. These factors are:

- **Low interest rates**
- **A weaker Pound**
- **Lower asking prices for good commercial properties**

Recently, there have been strong indications that all three of these factors have either been affected, or will be affected in the near future by developments within the UK economy.

### Interest Rates

On 27 June, BBC News reported that Bank of England governor Mark Carney was of the opinion that interest rates would start rising soon and settle at around 2.5% early in 2017. This is significantly lower than the pre-crash level of around 5%, but Mr Carney made the point that the financial system has been fundamentally changed.

### Pound Exchange Rate

On 2 July the Express reported that the Pound had reached 1.7155 against the US Dollar, the strongest it has been since the peak of the financial crisis in October 2008. As at the time of writing, the Pound has maintained this strength and looks set to remain strong going forward.

Although predicting the exact exchange rate is far from easy, many economists are expressing the view that the Pound will strengthen as the UK economy recovers.

### Commercial Property Prices

In the same article, the Express also reported that the June reading of the Purchasing Managers Index (PMI) for the manufacturing sector was at its second highest level in 40 months. This is an important development as it indicates an increase in both activity and positive sentiment among manufacturing businesses. The improvement in the index points towards an economy that is recovering and beginning to grow.



Capital prices and rentals in the UK Commercial Property market, as with most property environments, are largely the result of the demand vs supply dynamic. An increase in manufacturing activity will drive the demand for suitable properties.

There will also be a knock-on effect in related sectors, for example, logistics and distribution, and possibly even retailers that sell the finished products. As these businesses expand they often look for bigger and better premises.

This increase in demand, coupled with a slowdown in building and development of commercial properties over the last few years, will most likely drive commercial property prices and rentals upwards.

### **Invest Before it is Too Late**

As the UK economy corrects and strengthens going forward, it will continue to have an effect on each of the key factors that influence the viability of foreign investment in the UK Commercial Property market.

Overall, a combination of higher interest rates, a stronger Pound and increasing commercial property prices will mean higher returns and capital growth for those already invested in the sector. However, finding good deals on quality commercial properties is likely to become progressively more difficult as time goes by.

The key to benefitting from UK Commercial Property in the current economic climate is investing while there are still good deals available.