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Commercial Property Market Review September 2024

Growth expected in commercial property market

Savills expects to see growth in the UK's commercial property market in Q4.

The sector had a good start to 2024, as cross-border investment hit $14bn in H1, with the UK attracting more capital than the USA or any European peers. Investors were given a further boost by the first cut to Bank Rate in over four years in August. As a result, many buyers are reaching an inflection point and more capital is set to be deployed in Q4.

Joint Head of UK Commercial Investment at Savills, James Gulliford, commented, *"We are seeing rising confidence in the UK's economic fundamentals which should drive tenant demand and feed through into yield hardening from the end of the year."*

Mat Oakley, Savills' Head of UK and Europe Commercial Research, added, *"The UK's return to a focus on creating an environment to support economic growth is a solid strategy, although reversing the macro trend of the last eight years or so will be slow and there are risks that could threaten this growth."*

UK hotels update

It was a strong Q2 for the regional hotel market, according to recent data from Knight Frank.

Occupancy across regional UK hotels remained stable in Q2 of this year at 77% – only 3% less than Q2 of 2019.

Average daily rate (ADR) was up 4.3% year-on-year, driven by heightened demand for meetings and events space. Select Service and Upper-Upscale segments displayed particularly strong growth, with their ADR up 5.4% and 4.6% respectively.

Golf and spa hotels outperformed the rest of the market, with revenue per available room going up by 20% annually. This boost is likely thanks to a 6% increase in occupancy and 10% rise in ADR.

There was strong growth in departmental income due to a slowdown in rising costs and robust revenue growth, with food and beverage income going up by 9% per available room in Q2.

Many commercial properties must improve energy efficiency

In 2027, new regulations are expected to require all commercial properties to have an EPC rating of C or above.

According to Essential Green Skills, leaders in sustainable building compliance, about 28% of commercial properties currently have an EPC rating of D or below. This means an estimated 130,000 properties could face fines of up to £150,000 if they don't improve their rating soon.

Failing to meet the new standards could make properties unlettable, thus reducing their market value. Upgrading EPC ratings should not just be a box-ticking exercise – a property with a higher energy efficiency will be much more appealing to environmentally-conscious tenants.

Commercial property currently for sale in the UK

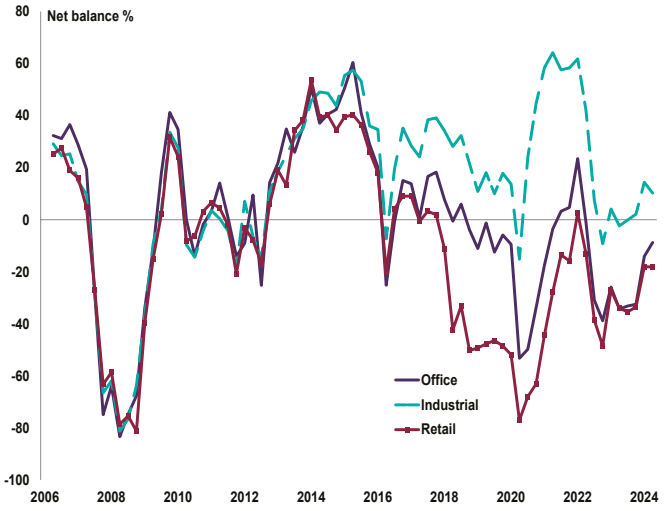
- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,313** commercial properties for sale with an average asking price of **£368,784**
- There average asking price of a property in London is **£1,281,528**.

Region	No. properties	Avg. asking price
London	1,881	£1,281,528
South East England	1,701	£676,495
East Midlands	855	£600,525
East of England	1,024	£608,575
North East England	840	£345,239
North West England	1,543	£548,015
South West England	1,882	£657,340
West Midlands	1,163	£563,179
Yorkshire and The Humber	1,227	£372,622
Isle of Man	35	£582,800
Scotland	1,313	£368,784
Wales	918	£454,329
Northern Ireland	3	£16,190

Source: Zoopla, data extracted 18 September 2024

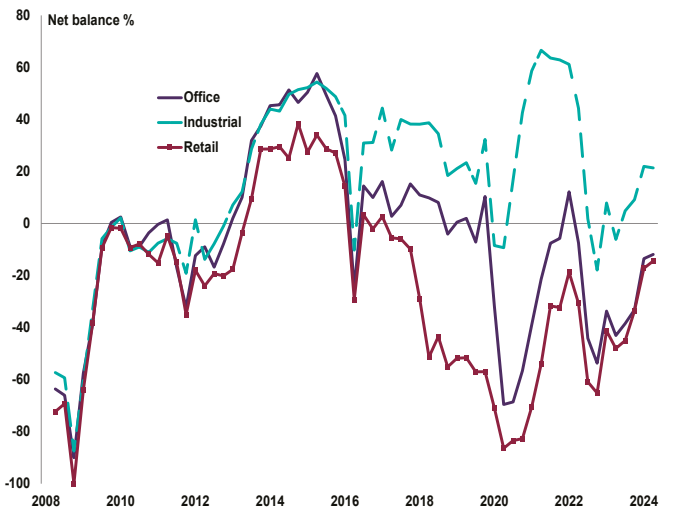
Commercial property outlook

Investment enquiries – broken down by sector



- The headline net balance for investment enquiries in Q2 2024 was -4%, completely unchanged from Q1
- The industrial sector saw a rise in investment enquiries during Q2, with a net balance of +10%
- Slightly negative net balance readings were returned across the office (-9%) and retail (-18%) sectors.

Capital value expectations – broken down by sector



- The prime industrial sector displays clearly positive expectations for the year to come, posting a net balance of +57% in Q2 2024
- Across the prime office sector, a net balance of +38% of respondents expects capital values to move higher, up from a reading of +25% in Q1
- Prime retail values are expected to improve, with a net balance of +12% up from a reading of +5% in the previous quarter.

Source: RICS, UK Commercial Property Market Survey, Q2 2024

All details are correct at the time of writing (18 September 2024)

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