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Commercial Property Market Review October 2024

Commercial market update

UK commercial real estate continues to perform well, according to BNP Paribas Real Estate.

Investor sentiment has improved, with sterling continuing to strengthen, reaching its highest level against the dollar and the euro in over two years. This helps to attract overseas investors and boost UK weightings in global real estate allocations.

Performance is recovering too and total returns were positive across all main sectors over the last three months – the first time this has been the case in over two years. It is important to note, however, that this recovery is expected to be gradual as investors and the market continue to find their feet.

Etienne Prongué, CEO of BNP Paribas Real Estate commented, *"UK real estate data continues to be reassuring. The trajectory for capital value is now positive across all property types and confirms the UK market is further along in its recovery than the rest of Europe. With the development pipeline remaining constrained and business surveys continuing to point to expansion, our forecast for prime office returns point to continuing UK outperformance over the next five years."*

Modest recovery for retail

The latest data from Colliers indicates that the retail market is showing signs of modest recovery.

In capital markets, retail investment volumes increased to £200m in August. Although this is above the £150m reported in July, it is still significantly lower than the five-year monthly average for August, which stands at £660m. The largest single-asset transaction in August came from JP Morgan, who bought 291 Oxford Street for £70m at a 5.8% yield.

In occupier markets, retails sales volumes increased by 2.5% annually in August but are still below pre-pandemic levels. Meanwhile, annual retail price inflation was at 3.5% in August, having lowered to 2.9% in June. Also, retails rents have risen for 22 consecutive months.

Positive sentiment from Savills

There seems to be a more positive sentiment in the UK commercial market, according to Savills.

All sectors saw yields trending downwards or staying the same in August. Investment research firm, MSCI, reported that total returns were positive across the whole UK commercial market. The only sector displaying a yearly negative return was offices, however Savills expect this sector to pick up and return to positive territory in Q1 2025. Future supply is very limited, which will cause prime rents to keep increasing.

The UK dominated European activity in H1 of this year, with a 29% share of investment volumes – 24% above the five-year average. There has been a notable increase in activity from French SCPI (Société Civile de Placement Immobilier) collective funds, who are investing in UK regional markets.

In capital markets, retail investment volumes increased to £200m in August

Commercial property currently for sale in the UK

- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,324** commercial properties for sale with an average asking price of **£367,594**
- There are currently **1,844** commercial properties for sale in London, the average asking price is **£1,326,434**.

Region	No. properties	Avg. asking price
London	1,844	£1,326,434
South East England	1,681	£688,248
East Midlands	852	£606,967
East of England	1,027	£608,191
North East England	845	£346,355
North West England	1,535	£558,791
South West England	1,873	£669,511
West Midlands	1,167	£562,943
Yorkshire and The Humber	1,215	£364,902
Isle of Man	35	£581,514
Scotland	1,324	£367,594
Wales	923	£466,805
Northern Ireland	2	£17,142

Source: Zoopla, data extracted 15 October 2024

Very limited supply of Glasgow office space

Savills has reported that demand for office space is significantly exceeding supply in Glasgow.

In the first half of this year, take-up of office space across the city increased annually by 32%, reaching 177,514 sq. ft. There remains demand for up to 750,000 sq. ft of office space, but a limited supply of good quality offices exists, with only about 600,000 sq. ft of prime and Grade A office available. The take-up is therefore expected to stay below the long-term five-year average of 490,900 sq. ft.

Rents are expected to go up to at least £40 per sq. ft due to the lack of new build and refurbishment projects in the pipeline. Commenting on the challenging conditions, the Head of Savills' Glasgow office, David Cobban, said, *"Ultimately, businesses will have to be prepared to pay more to get the type of space that fulfils their requirements."*

All details are correct at the time of writing (16 October 2024)

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