MARKLAND HILL WEALTH

INDEPENDENT FINANCIAL ADVISERS

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Commercial Property Market Review

March 2025

Regional office investment rebounds as confidence grows

Investor sentiment in the regional office market has improved, with total investment reaching £2.9bn in 2024, up 10% from 2023, according to Savills.

The Big Six regional cities saw office take-up of 4.6 million sq. ft, 15% above the five-year average and the highest since 2019. Opportunistic investors are targeting repriced assets with strong fundamentals. Overseas investors led the market, accounting for 41% of investment, with French SCPI funds particularly active. Property companies remain key players, representing 32% of investment volumes and many acquisitions are set for alternative use conversion.

Despite macroeconomic uncertainty, corporate occupiers continue to pay premium rents, with prime rental growth in Greater London and the South East up 8% in 2024. On average, tenants relocating to Grade A offices are paying 69% higher rents per sq. ft than on previous leases, reinforcing the ongoing flight to quality.

UK commercial property market shifts focus to industrial spaces

Changing business needs are seeing industrial spaces playing a key role.

Investment in industrial real estate is also surging. In 2024, UK commercial property investment grew by 20% compared to 2023, with industrial assets leading the way in the fourth quarter, according to Cushman & Wakefield.

E-commerce and demand for advanced logistics have strengthened the sector, with 2024 take-up levels surpassing those of 2023 and aligning with long-term averages. Technology is transforming industrial spaces, with automation, artificial intelligence (AI) and smart logistics improving efficiency. Warehouses are evolving into high-tech hubs, integrating automated storage and AI-driven inventory management.

Sustainability is another major focus, as properties must meet stricter energy efficiency standards. By 2030, 80% of commercial buildings could become unlettable unless they achieve an EPC rating of A or B. Landlords are increasingly repurposing industrial spaces, drawing inspiration from flexible residential developments.

Remote work and sustainability helping to shape UK commercial property trends

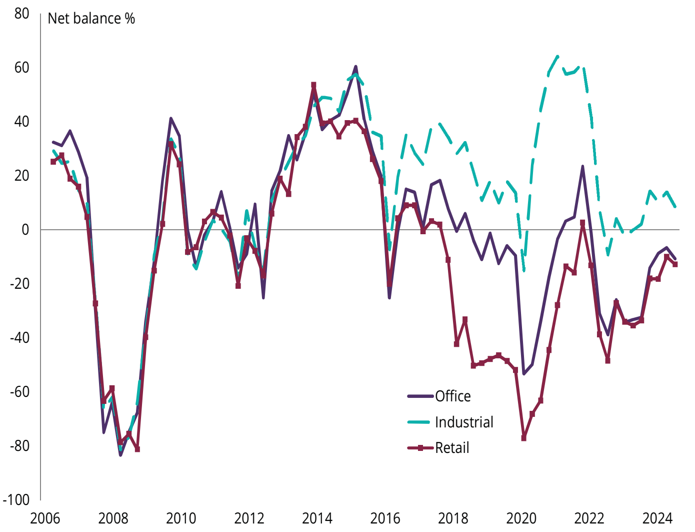
New research from Dutton Gregory highlights key trends in remote work, property valuations and sustainability upgrades.

Remote working poses the greatest challenge in the commercial property market for 58.9% of survey responders. While hybrid working has increased demand for flexible office space, it has also affected property valuations, which 15% identified as the second biggest challenge. Supply chain disruptions (12%) and economic uncertainty (6.3%) were also concerns, though tenant retention (1.1%) and regulatory changes (1%) ranked lower.

Sustainability is an increasing priority, with 34.2% planning to invest in solar panels. Renewable energy (30.1%) and EV charging stations (25.1%) are high on the agenda, reflecting growing demand for energy efficiency. In contrast, initiatives like waste reduction (5.5%), green roofs (3.7%) and water conservation (0.8%) received less attention, suggesting a focus on immediate, high-impact solutions over longer-term sustainability measures.

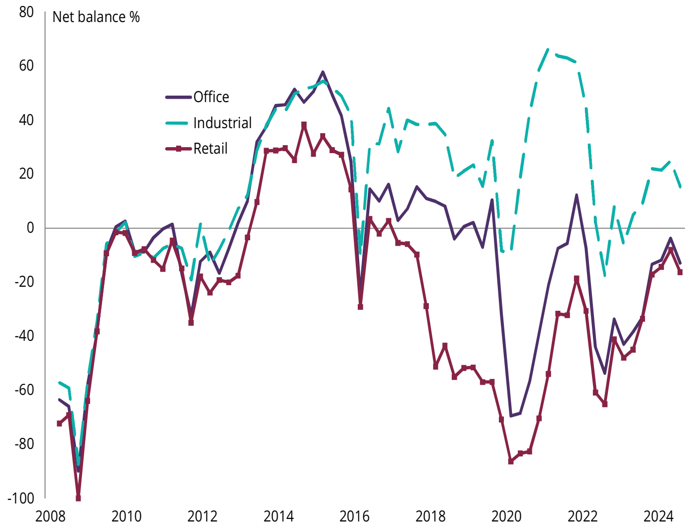
Commercial property outlook

Investment enquiries – broken down by sector



- The headline net balance for investment enquiries in Q4 2024 was -4%, down from zero in Q3
- A mildly positive reading for the industrial sector was offset by negativity in office and retail
- International investment enquiries were largely unchanged overall.

Capital value expectations – broken down by sector



- The Q4 2024 headline near-term outlook showed a net balance of -3%, down from +6% in Q3
- A net balance of +5% of respondents expects capital values to rise over the year
- Of those expecting a rise in values over the year, +44% of respondents see prime industrial values rising during the next twelve months.

Source: RICS, UK Commercial Property Market Survey, Q4 2024

Retail real estate set for strong year as investment demand rises

Rightmove signals a positive year ahead for retail real estate, with commercial property investment demand surging a cut to Bank Rate in February.

Rightmove's Quarterly Commercial Insights Tracker shows the sector has seen a 28% year-on-year increase in investment enquiries, while leasing demand rose by 6%.

Retail is now 'right-sizing' to align with market needs, according to JLL, as vacancy rates stabilise and economic conditions improve. JLL's research paper last year noted,

> *'The investment market should also benefit from gradually increasing activity, as more investors seek to take advantage of the rebasing of real estate prices, and greater levels of stock on the market. Retail fundamentals appear strong in many markets, creating a powerful case for real estate investors to target the sector. The tide has finally turned, and a new era for the right type of retail has arrived.'*

All details are correct at the time of writing (19 March 2025)