

Commercial Property Market Review

September 2024



Our monthly property market review is intended to provide background to recent developments in property markets as well as to give an indication of how some key issues could impact in the future.

We are not responsible or authorised to provide advice on investment decisions concerning property, only for the provision of mortgage advice. Commercial lending is available by referral to a master broker. We hope you will find this review to be of interest.

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.

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Commercial property currently for sale in the UK

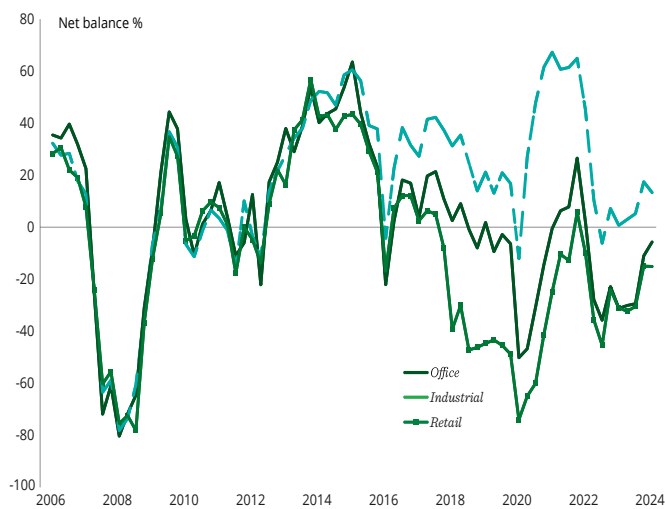
- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,313** commercial properties for sale with an average asking price of **£368,784**
- There average asking price of a property in London is **£1,281,528**.

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

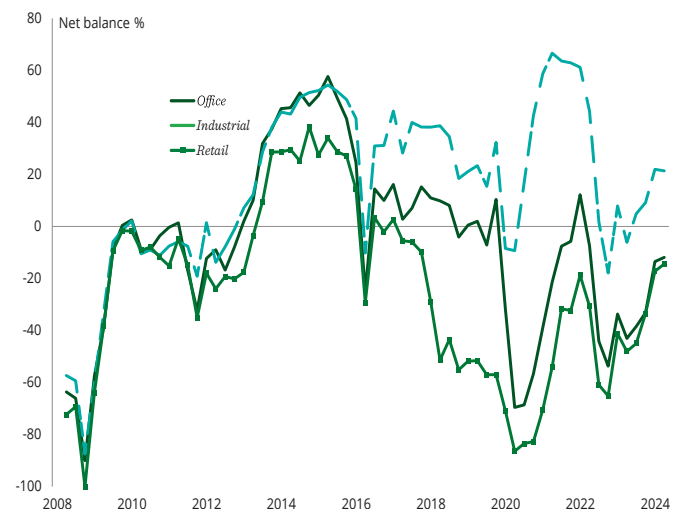
Investment enquiries – broken down by sector



- 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.

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

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.

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

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.