propertymark

Commercial Outlook

This report is based on a survey of Propertymark Commercial agents.

Q1

2024

KEY HIGHLIGHTS:

Supply and demand imbalances remain in key sectors

40% of members forecast an increase in supply in the office sector

58% of members report rents rising following review

Speaking with commercial agents across the UK, results can vary from region-to-region. Interest in industrial and warehousing has slowed to a sensible level, following growth from the last 10-15 years over and above general market increases. The reduction in demand from online retailers for storage is a key factor that has applied the brakes to this sector.

The appetite for town centre retail is still predominantly from local businesses, but there have been some encouraging signs that brands have started to step up activity. Demand for larger open-plan offices remains poor but there has been a resurgence in demand for smaller offices in business centres.

With the UK Government's proposals for high street rental auctions due to hit the market in September 2024, the devil will be in the detail of how the mechanics of this might work. We need to avoid the unintended consequence of pushing prices, rents and thus investment and regeneration of town centres down.

Michael Sears
Commercial Advisory Panel Member & Propertymark Board Member

Nathan Emerson
Propertymark CEO

Although challenges remain, key economic indicators give cause for optimism. GDP is trending upward, and inflation is edging closer to the Bank of England's target.

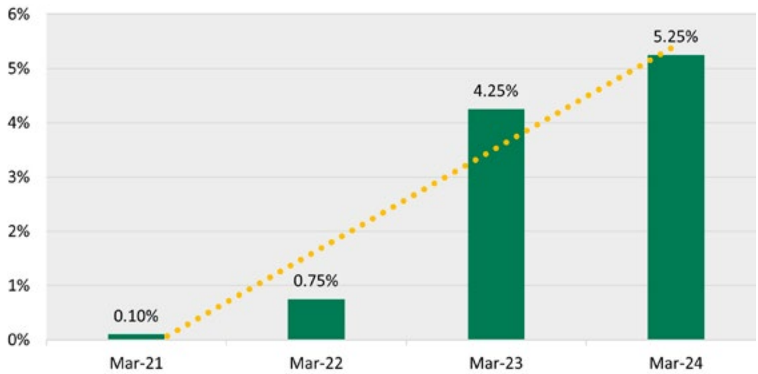
Member sentiment varies by sector, but there is notable positivity in the Land and Yards and Industrial sectors. Supply and demand imbalances remain, most notably in the Pubs and Restaurants sector, which continues to be impacted by changing trends. However, as the economy stabilises, we remain optimistic about the outlook for the UK commercial property sector.

Economic **outlook**

BASE RATE REMAINS UNCHANGED

The Bank of England base rate remains unchanged at 5.25% in March 2024, but remains considerably higher than in earlier periods (Figure 1).

Figure 1: Bank of England base rate

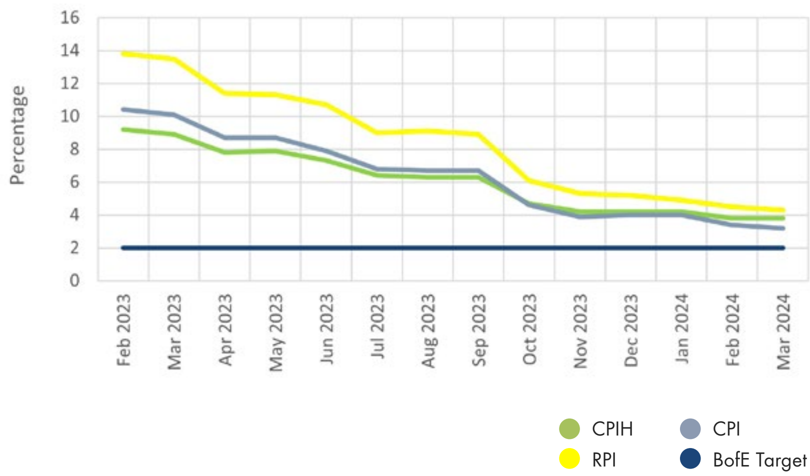


Source: Bank of England

INFLATION CONTINUES TO TREND DOWNWARDS

Depending on the measure selected, inflation remained static or continued to trend downward in March 2024. Specifically, in the 12 months to March 2024, inflation was 3.8% as measured by CPIH, 3.2% as measured by CPI and 4.3% as measured by RPI (Figure 2).

Figure 2: Inflation percentage change over 12-month period

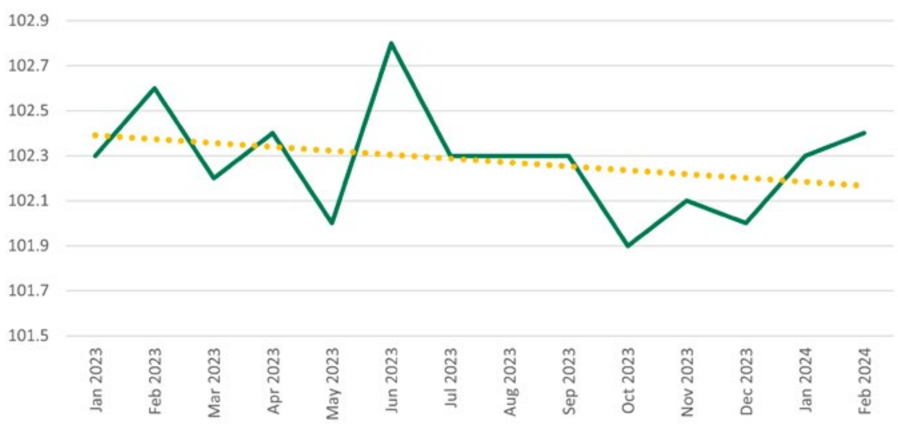


Source: Office of National Statistics

GDP INCREASES FOR THE SECOND MONTH IN A ROW

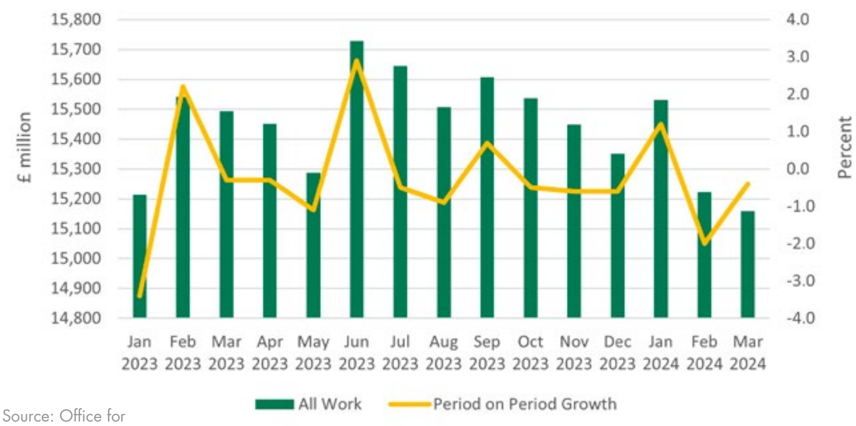
The latest figures estimate that GDP grew by 0.1% in February 2024 (Figure 3).

Figure 3: UK GDP (Index, 2019 = 100)



Source: Office for National Statistics

Figure 4: Construction output all work summary (Chained volume measure, seasonally adjusted, 2019 prices)



Source: Office for National Statistics

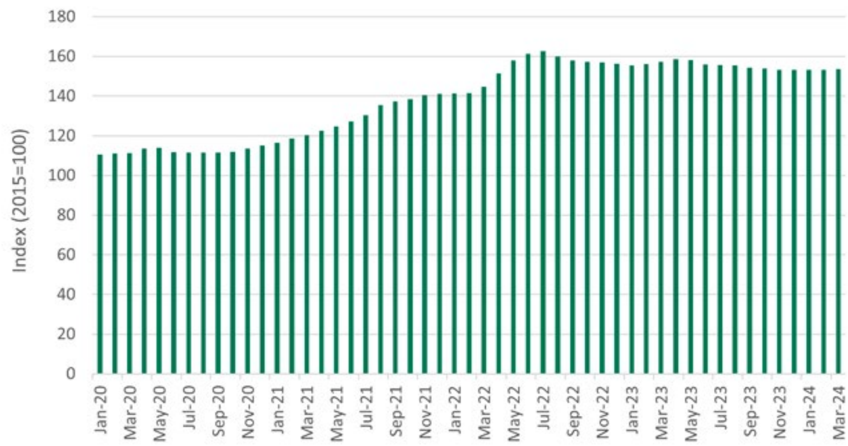
CONSTRUCTION SECTOR OUTPUT TRENDS DOWNWARD

As can be seen in Figure 4, the monthly construction output price data, has trended downward in Q1 2024.

CONSTRUCTION MATERIAL PRICES INDEX REMAINS STATIC

The construction material price index remained largely static in Q1 2024 (Figure 5).

Figure 5: Construction material price index: All work (2015=100)



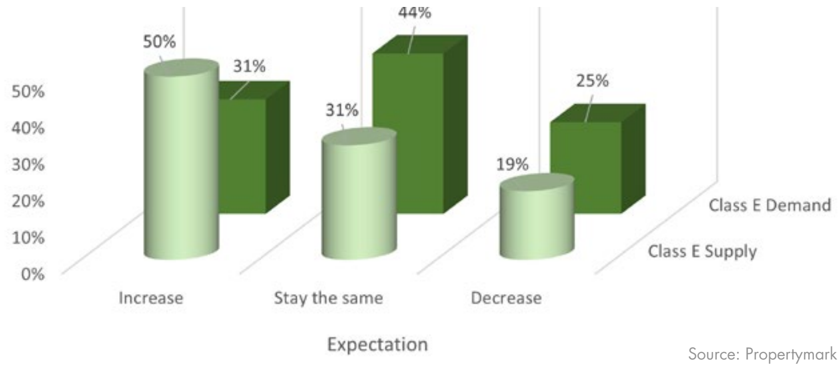
Supply and **demand**

CLASS USE E SECTOR

In England, Class E incorporates a broad range of Commercial, Business and Service uses.[1] These include everything from the display and sale of goods (Class E(a)) to the provision of medical or health services (Class E(e)).

We asked our members what they expected to happen to supply and demand levels within the sector over the next 12 months. Half (50%) forecast an increase in supply whereas around one-third (31%) forecast a corresponding increase in demand (Figure 6).

Figure 6: 12-month supply and demand forecast (Class E Sector)

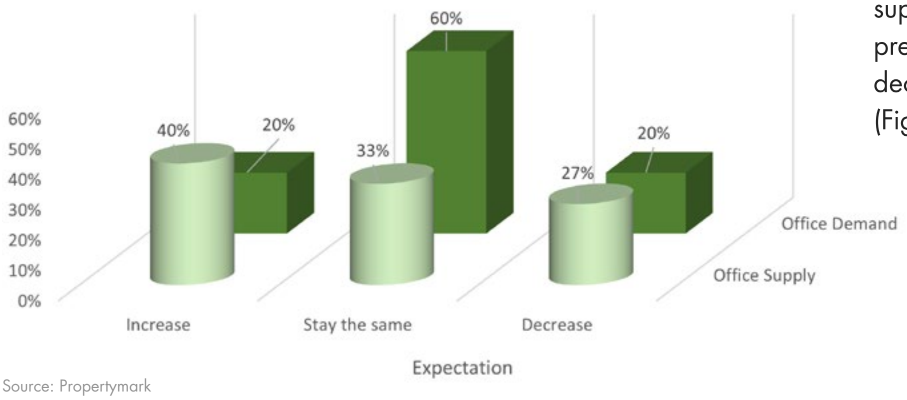


Source: Propertymark

OFFICE SECTOR

We also asked our members what they expected to happen to supply and demand levels within the office sector over the next 12 months. 40% predicted an increase in supply, whilst the majority (80%) predicted that demand would decrease or remain the same (Figure 7).

Figure 7: 12-month supply and demand forecast (office sector)



Source: Propertymark

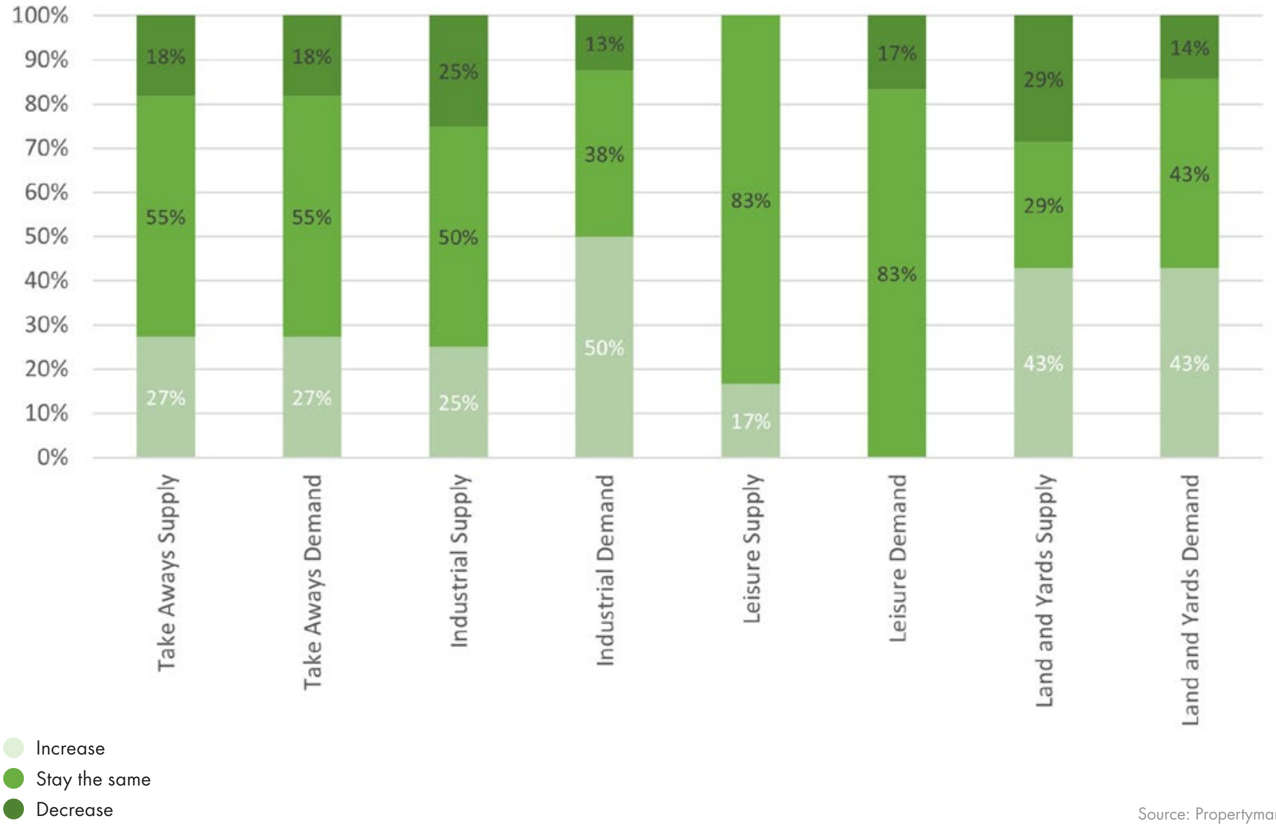
[1] Use classes differ in other parts of the UK.

OTHER SECTORS

Supply and demand expectations continue to fluctuate in the other sectors our members operate within (Figure 8).

For example, in the Take Aways sector, supply and demand expectations broadly align with 27% of members forecasting an increase in supply and the same forecasting an increase in demand. However, the Industrial sector is less balanced with more members forecasting an increase in demand (50%) than forecasting an increase in supply (25%).

Figure 8: 12-month supply and demand forecast (other sectors)



Source: Propertymark

Capital values

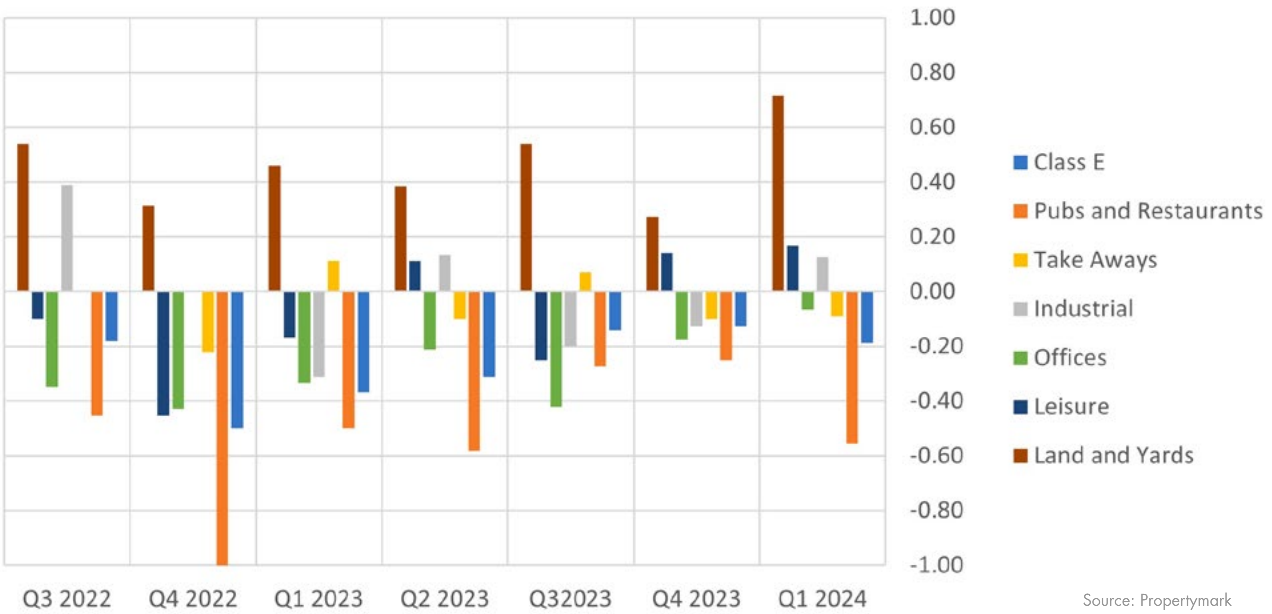
ALL SECTORS

We asked our members whether they expect capital values to increase, decrease or stay the same over the next year within each of the sectors in which they operate.

Their responses are converted to a numeric scale bounded by 1 and -1 and reported below. Positive values indicate that most respondents expect capital values to rise or remain the same over the next year. Negative values indicate that most respondents expect capital values to fall or remain the same (The same methodology is adopted for our insights into rent levels and net yields).

Sentiment trends have persisted in key sectors. For example, in the Land and Yards sector sentiment remains positive and has improved against last quarter. In the Pubs and Restaurants sector sentiment remains negative and has declined against the last quarter. However, in the Industrial sector, sentiment has swung upwards with members now more upbeat about capital values (Figure 9).

Figure 9: Capital value expectations over the next 12 months (all sectors)



Source: Propertymark

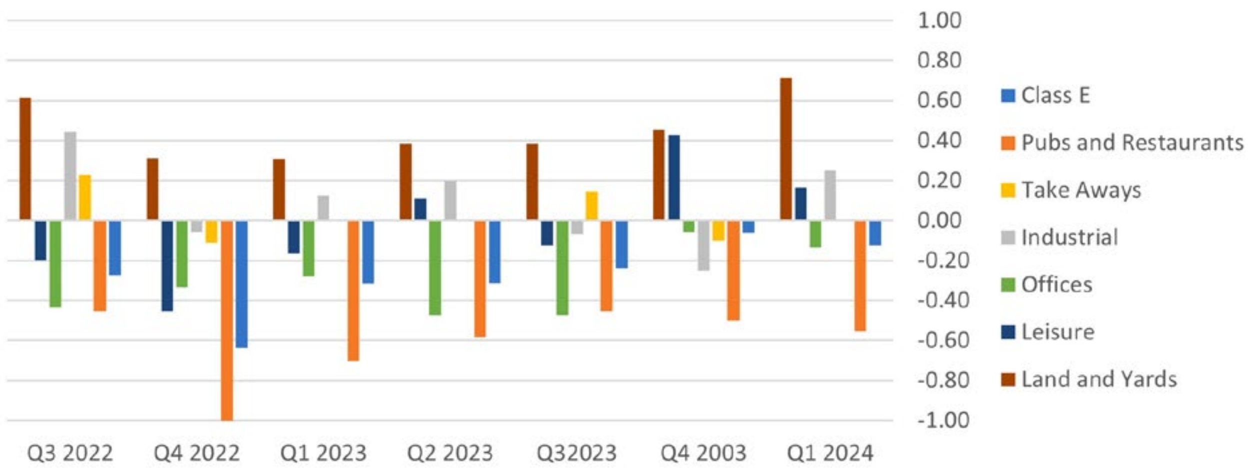
Rent levels

ALL SECTORS

We also asked our members about their expectations for rent levels (ITZA levels in the case of the Class E sector) in the coming twelve months.

Members continue to be optimistic about rents in the Land and Yards sector and pessimistic about rents in the Take Aways sector. Again, there has been a positive shift in sentiment towards Industrial sector rents. However, members are marginally more pessimistic with regards to Office sector and Class E sector rents (Figure 10).

Figure 10: Rent level expectations over the next 12 months (all sectors)



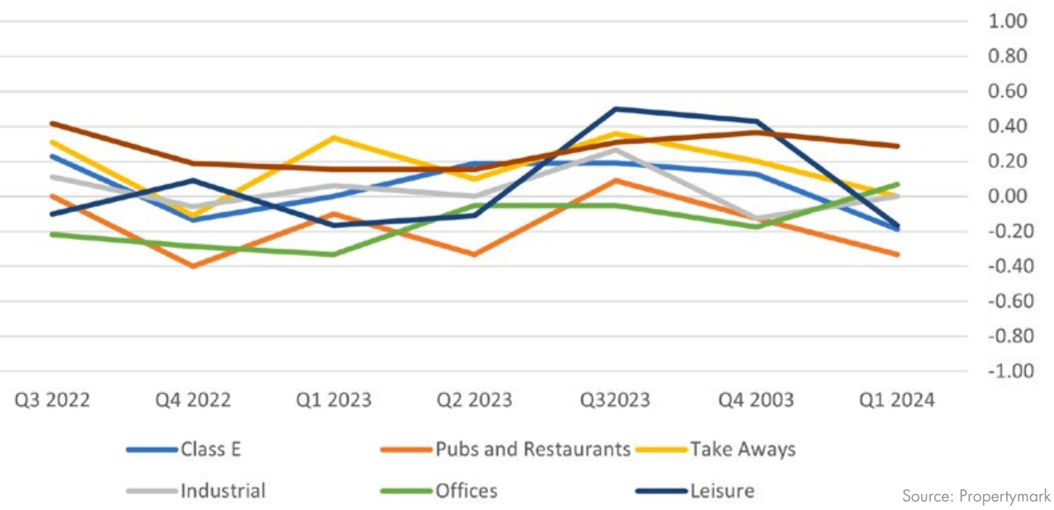
Source: Propertymark

Investment yields

ALL SECTORS

Expectations for investment yields in the coming twelve months vary by sector with the largest swings in sentiment visible within the Leisure sector and Class E sector (Figure 11).

Figure 11: Trends in investment yield sentiment (all sectors)

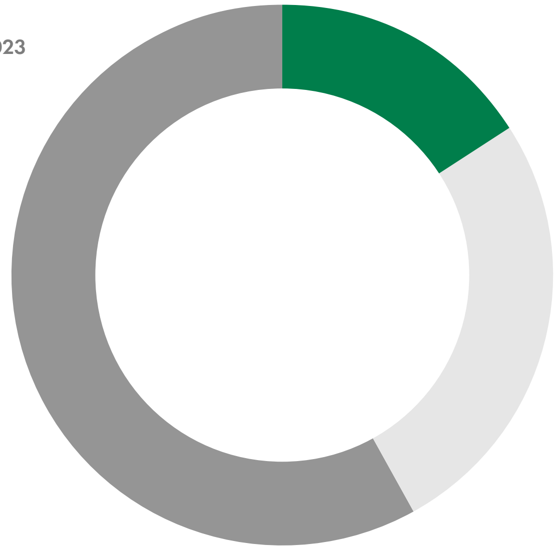


Source: Propertymark

Rent reviews

We asked our members about the outcome of rent reviews undertaken in Q1 20024. Over half (58%) reported that rents were increasing. However, 16% reported that rents were decreasing following review (Figure 12).

Figure 12: Outcome of rent reviews undertaken in Q4 2023



- Rents are increasing following review (58%)
- Rents are staying the same following review (26%)
- Rents are decreasing following review (16%)

Source: Propertymark

Member **insights**

Each quarter we ask our members to provide their views on trends and developments within the commercial property sector.

There is still a correction ongoing in both restaurants and takeaway sectors due to both increased competition following a 'mini-boom' during and after covid and household spending being tightened due to inflation. More distress is expected in the sector due to sustained higher interest rates.

Jason Payne MNAEA (Comm), Valuer, Ernest Wilson Business Agents

Most of the retail appetite is from local rather than brand names, although brands have made a small increase in enquiries. Demand has dropped noticeably on industrial buildings. Small offices in business centres are very robust but the market in larger offices remains very poor.

"There continues to be steady demand for hospitality premises at and below £300,000, anything above this figure must be accompanied with positive trading accounts showing net profits of over £40,000. The leasehold market continues to be sporadic however tenants can be found, providing the terms are sensible."

Zaine Lamont, Regional Valuations Manager, Sidney Phillips

"Since end Dec 2017, the Electronic Communications Code, reformed under the Digital Economy Act, in order to meet the increasing and critical needs of local communities and UK economy as a whole, facilitating access to high-speed broadband connection, reflecting public's interest and making it more straightforward for telecom providers to gain access to the location they need, to improve services, has now seen balance tipping in favour of telecoms providers, changing the basis of valuations to a 'no scheme' world bringing more in line with payments made for other utilities and basically reducing rents, seeing surge in legal disputes as landowners, telecoms providers and the courts come to terms with the question of how it operates in practice, with payment reviews in existing agreements plateauing as new agreement payments in wider sector decrease."

Mark Sorge, DipCPA FNAEA(Comm) FNAVA MCMI

Markets remain active if participants are realistic about their objective.

Nick Hanson Director Emberson & Co

TAKE THE NEXT STEP

The views and figures in this Propertymark Commercial Outlook refer to the UK as a whole. Specific geographic locations and markets (city centre/suburban/etc.) will vary.

We strongly recommend that you contact a Propertymark commercial agent in your area to discuss opportunities that suit you. You can find your local agent at propertymark.co.uk/find-an-expert

There are several reasons why you should use a Propertymark commercial agent over any other:

INTEGRITY

As members of Propertymark, our agents have a proven dedication to professionalism within the commercial property sector.

CUSTOMER PROTECTION

Propertymark member agents are regulated by Propertymark, which is a nationally recognised regulatory brand, and provide high standards of service.

COMPLIANCE

Our members have access to the latest legal and best practice guidance.

ENDS

ABOUT THE PROPERTYMARK COMMERCIAL OUTLOOK

This report is based on a survey of Propertymark commercial agents conducted during the first quarter of 2024. It is further addended with an analysis conducted by Propertymark of key statistics relevant to the commercial property market.

ABOUT PROPERTYMARK

Propertymark is a leading professional body of commercial and other agents. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry leading training programme and mandatory Continuing Professional Development.

The Commercial division of Propertymark represents members who practice from over 650 offices and aim to reassure the public that by appointing a Propertymark Protected agent to represent them, they will be safeguarded and receive the highest level of integrity and service for all property matters.

EDITOR NOTES

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