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Commercial Property Market Review

February 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.

2024 – a turning point?

The recently released UK Commercial Market in Minutes from Savills has identified 2024 as a pivotal year for the commercial property investment market. Expectations are for an uptick in investment volumes versus 2023, after a couple of years of falls, with some strengthening in prime yields also likely.

Positivity about the year ahead is grounded in expectations that Bank Rate will reduce as the year progresses and beyond, which should ignite purchase opportunities in the sector. Investors will look to buy UK commercial property *'at the absolute nadir of this cycle to maximise their returns'* according to the report.

It is also anticipated that optimism in the market is being heightened by sustainability in occupational markets. Last year average and prime rents increased in most logistics markets and prime rents rose in each of the UK's major office markets. Looking ahead, subdued levels of development will place *'downward pressure on vacancy rates in all sectors,'* which will result in the delivery of rental growth.

Looking into 2025, the expectation is that the combination of positive exit yield optimism and a compelling story surrounding rental growth, will see an increasing number of investors returning to the market as confidence improves, and an uptick in demand would be the catalyst to yield recovery.

Prime warehouse rents up 8% in 2023

Colliers Industrial and Logistics Team's latest analysis reveals that prime rents for large distribution warehouses (100,000+ sq. ft) in the UK rose to £11 per sq. ft, marking an 8% year-on-year increase.

Mid-box and multi-let units also experienced a surge, reaching £14.50 per sq. ft, up 6.3% year-on-year. These rent hikes occurred despite a slowdown in take-up and an uptick in warehouse supply. Large warehouse take-up in 2023 totalled 24 million sq. ft, a 36% year-on-year decline, while supply increased to 38.5 million sq. ft, still below the pre-pandemic ten-year average of 45.2 million sq. ft.

Confidence returns to Edinburgh and Glasgow office markets

Although office take-up decreased in Q4 2023, looking ahead, Edinburgh and Glasgow are showing signs of recovery, marked by substantial space requirements from large corporations and a rising demand for flexible office setups, as reported by CBRE.

Sustainability credentials are a key factor for businesses selecting new offices.

The research reveals that 157,807 sq. ft of office space was occupied in Edinburgh during the final quarter, a 3% decline from the previous quarter, with a total of 618,148 sq. ft leased throughout 2023, driven by financial and professional sectors' demand. Prime rents in Edinburgh have maintained stability at £43 per sq. ft.

There are also signs of recovery in Glasgow, according to Sarah Hagen CBRE Director, *"Once key lettings come forward in the early stages of 2024, we anticipate a surge in activity from those occupiers who once thought they had time on their hands, as supply continues to reduce and competition for best space increases."*

Positivity about the year ahead is grounded in expectations that Bank Rate will reduce as the year progresses and beyond

Quilter Financial Planning

Commercial property currently for sale in the UK

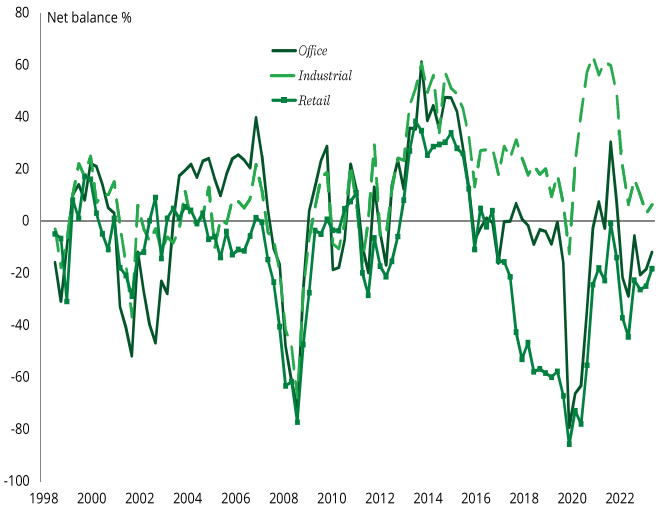
- *South West England* has the highest number of commercial properties for sale – *1,770*
- There are currently *1,753* commercial properties for sale in *London*, the average asking price is *£1,346,816*
- *Scotland* currently has *1,135* commercial properties for sale with an average asking price of *£354,357.*

Region	*No. properties*	*Avg. asking price*
London	1,753	**£1,346,816**
South East England	1,559	**£646,791**
East Midlands	751	**£609,283**
East of England	948	**£610,795**
North East England	821	**£344,317**
North West England	1,350	**£432,958**
South West England	1,770	**£616,936**
West Midlands	1,099	**£498,554**
Yorkshire and The Humber	1,158	**£378,749**
Isle of Man	33	**£514,210**
Scotland	1,135	**£354,357**
Wales	848	**£469,174**
Northern Ireland	5	**£27,449**

Source: Zoopla, data extracted 14 February 2024

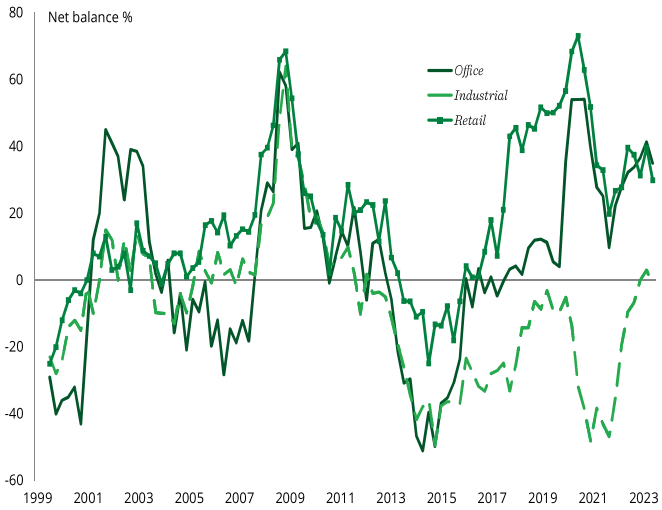
Commercial property outlook

Occupier demand – broken down by sector



- *A headline net balance of -7% of contributors was reported for overall tenant demand in Q4, less negative than -12% in Q3*
- *The office and retail sectors remain weak, evidenced by net balance readings of -12% and -18% respectively, but less downcast than readings of -19% and -25% seen in Q3*
- *A net balance of +6% of respondents noted an increase in demand for industrial space, compared to +3% in Q3.*

Availability – broken down by sector



- *Respondents continue to cite an increase in overall vacant space in both the office and retail sectors*
- *Industrial vacancies held broadly steady in Q4*
- *The value of incentive packages continued to rise across the board, this pick-up was more pronounced within the office and retail sectors and was only modest for industrials.*

Source: RICS, UK Commercial Property Market Survey, Q4 2023

All details are correct at the time of writing (14 February 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.