

propertymark

# Commercial Outlook



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

# Q2

2024

## KEY HIGHLIGHTS:

# 33%

of members forecast a demand increase in the Land and Yards sector.

# 47%

of members forecast a demand decrease in the Office sector.

# 50%

of members report are rents rising following review.



**The commercial property sector remains challenging, as we continue to transition away from traditional retail-based models and witness the ongoing impact of online shopping across the retail landscape. In addition, we have seen a defined shift away from demand on large-scale office space, with many businesses striking a new balance offering long-term and permanent homeworking alternatives.**

As aspects evolve, they provide deep insight into how the commercial property sector must focus for the future. The after-effects of the pandemic continue to reformat many conventional ways of thinking about how the industry has invested over the years.

However, we do sit at the start of an exciting phase where many town and city centres are looking at large-scale redevelopment ensuring they are fit for purpose for future generations to come. Within this process there are exciting opportunities to ensure a healthy mix of property types which ensures communities have a defined offering that coexists and complements the growth of online retailing and the evolution of homeworking.



Michael Sears  
Commercial Advisory  
Panel Member &  
Propertymark Board  
Member

Although the economic outlook remains mixed, the quarter ended with inflation in line with the Bank of England’s target, a precursor to a long-awaited reduction in the base rate.



Nathan Emerson  
Propertymark CEO

Our agents are bullish regarding capital values and rent levels in key sectors including the Industrial and Land and Yards sectors where demand continues to outstrip supply. There is less positivity in the Pubs and Restaurants sector, which continues to be impacted by changing social norms and the cost-of-living vestiges. Similarly, concerns remain in the Office sector which has a continued impact by the normalisation of home and hybrid working in some segments.

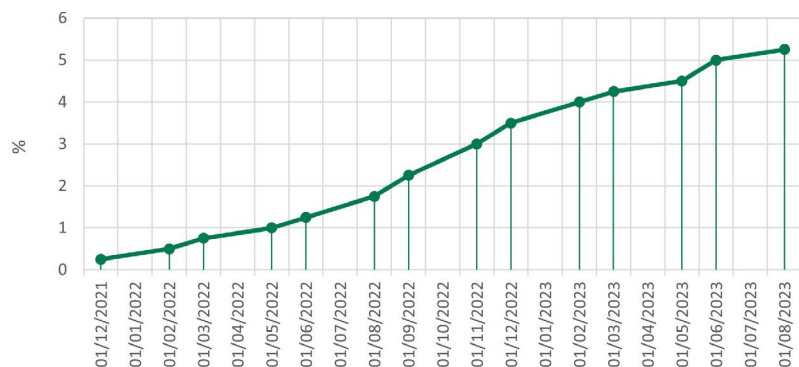
Overall, the UK commercial property sector continually presents significant opportunities for savvy investors looking for robust asset-backed investments.

# Economic outlook

## BASE RATE REMAINS UNCHANGED

At the end of the quarter (June 2024), the Bank of England base rate remained at 5.25% (Figure 1).

Figure 1: Bank of England base rate

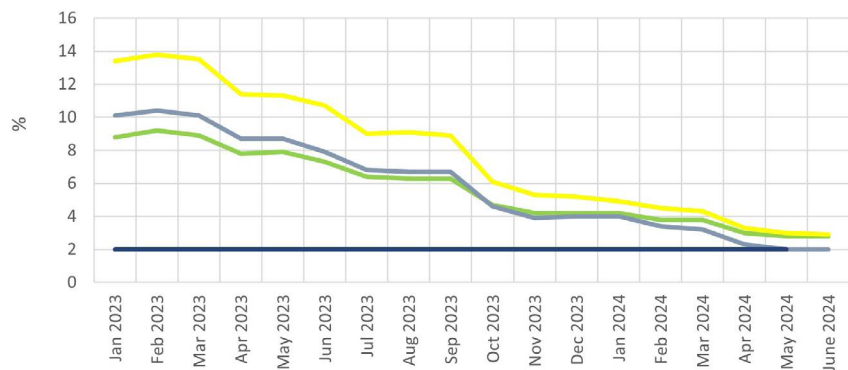


Source: Bank of England

## INFLATION PLATEAUS

In the 12 months to June 2024, inflation remained static at 2.8% as measured by CPIH, static at 2% as measured by CPI, and trended downward to 2.9% as measured by RPI (Figure 2).

Figure 2: Inflation percentage change over 12-month period



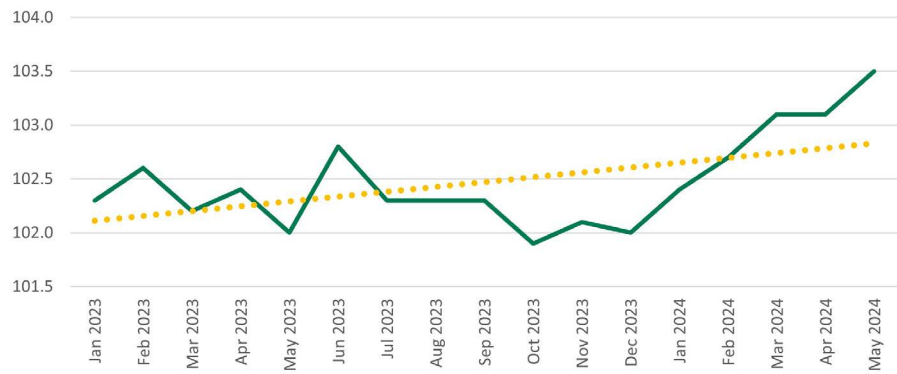
Source: Office of National Statistics

● CPIH    ● CPI  
● RPI    ● BofE Target

## GDP GROWS IN MAY 2024

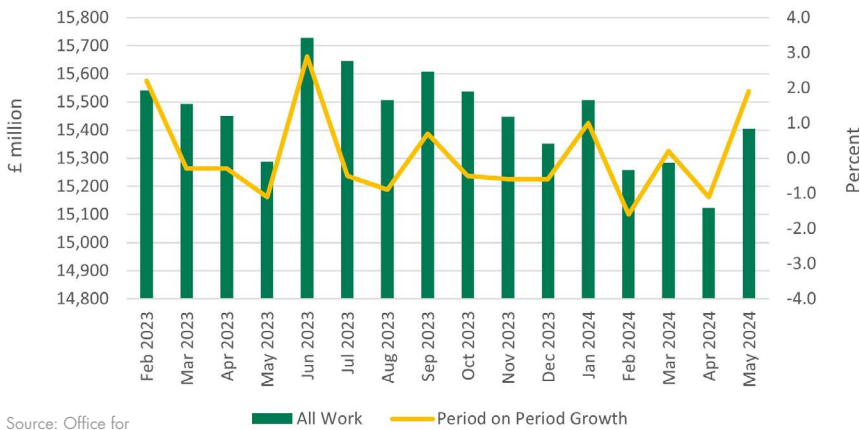
The latest figures estimate that GDP grew in May 2024 (Figure 3). Driven largely by the services sector, GDP grew over the three months to May 24.

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

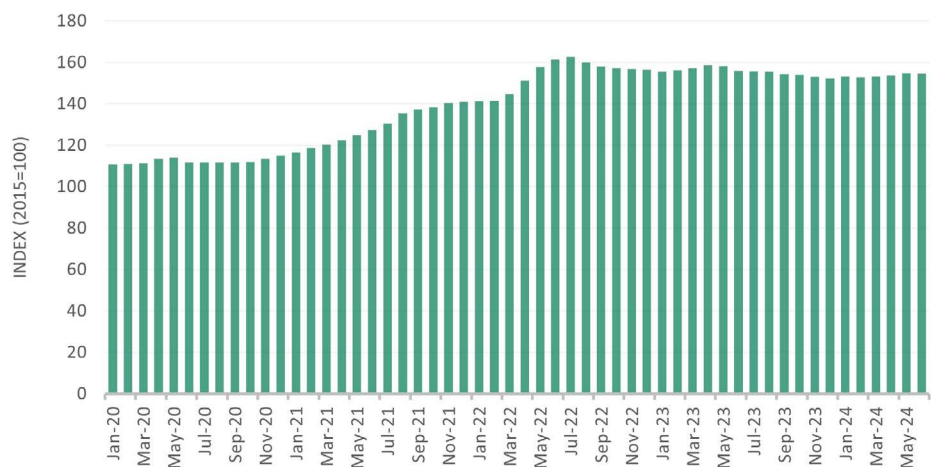
## CONSTRUCTION SECTOR OUTPUT TRENDS DOWNWARD

As can be seen in Figure 4, the monthly construction output price data continued to fluctuate in the first two months Q2 2024.

## CONSTRUCTION MATERIAL PRICES INDEX INCREASES

The construction material price index increased moderately in Q2 2024 (Figure 5).

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



Source: Department for Business and Trade

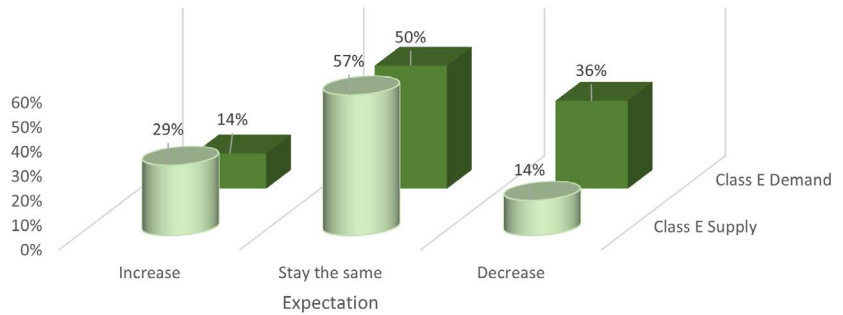
# Supply and demand

## CLASS USE E SECTOR

In England, Class E incorporates a broad range of Commercial, Business and Service uses. 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. 29% forecast an increase in supply whereas just 14% forecast corresponding increases in demand (Figure 6).

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



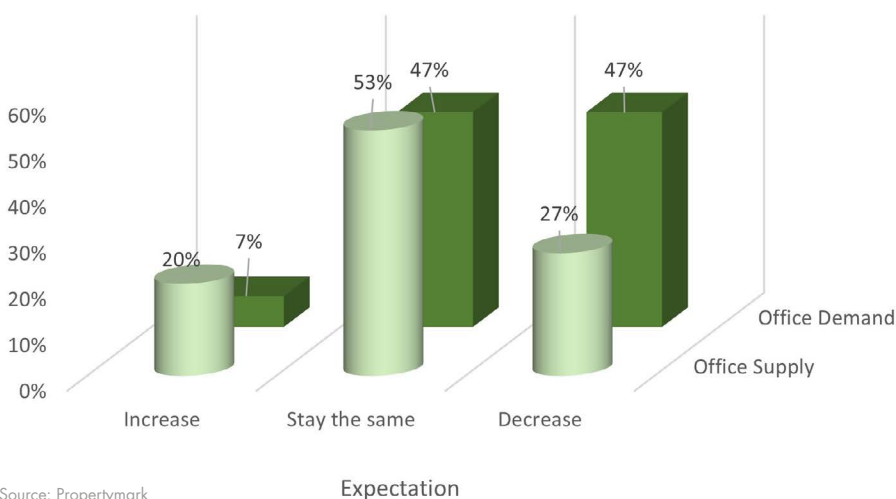
Source: Propertymark



## 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. 20% predicted an increase in supply, whilst the majority (94%) predicted that demand would decrease or remain the same (Figure 7).

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



Source: Propertymark



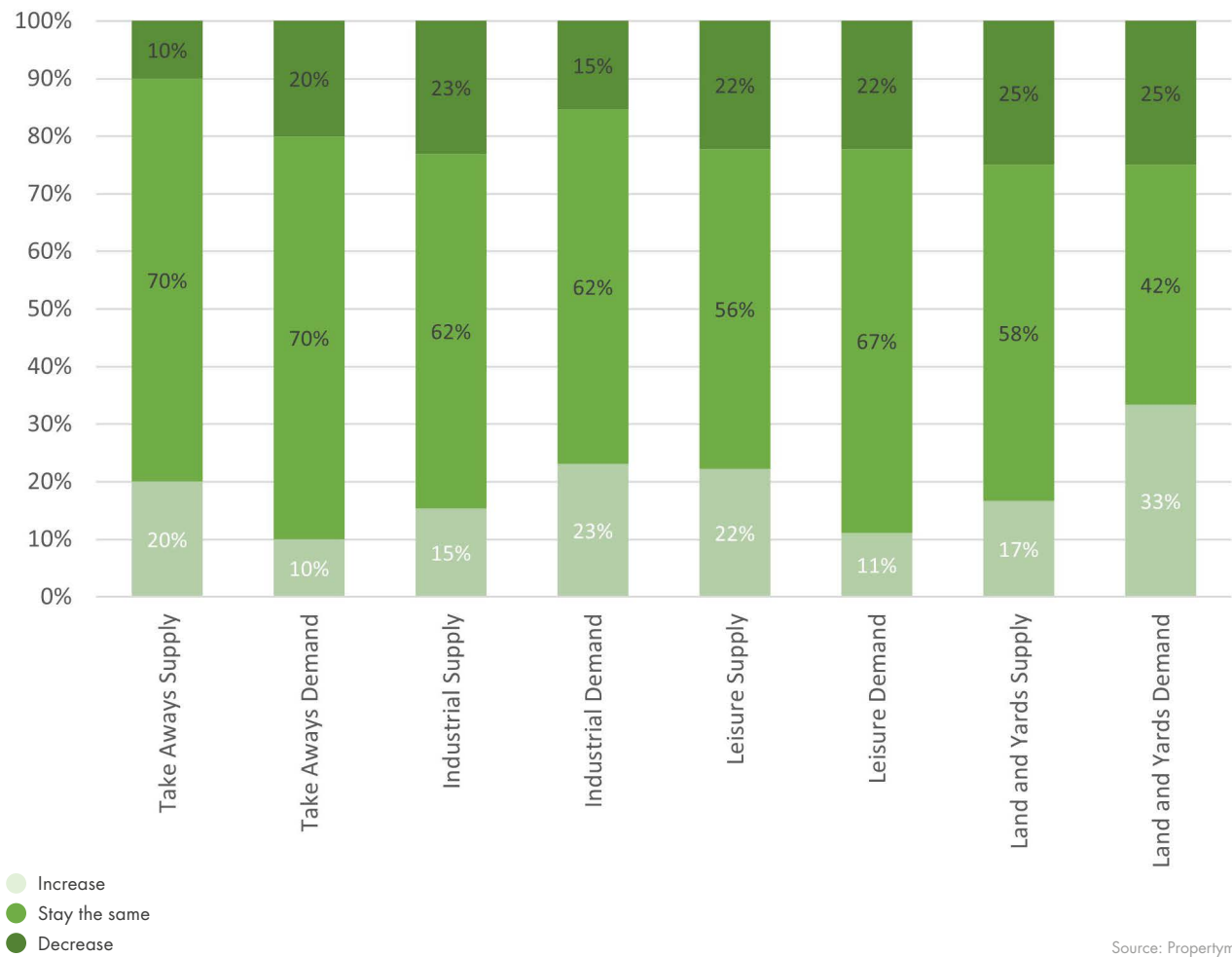
<sup>1</sup> Use classes differ in other parts of the UK.

## OTHER SECTORS

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

In the Take Aways sector, most agents (70% in each case) forecast that supply and demand levels will remain static. In the Land and Yards sector, 33% of agents forecast an increase in demand, whereas just 17% forecast an increase in supply.

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



# Capital values

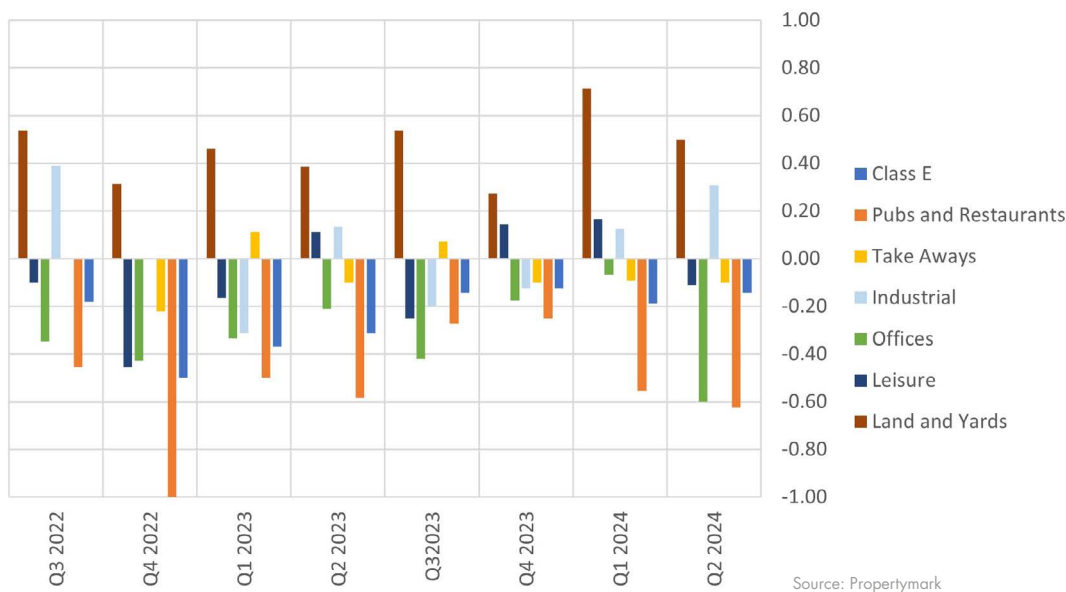
ALL SECTORS

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 over the next year. Negative values indicate that most respondents expect capital values to fall or stay 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. In the Industrial sector, sentiment has continued to increase with agents now more upbeat about capital values. Sentiment in the Pubs and Restaurants sector remains negative and has further declined against the last quarter. A negative progression in sentiment is also visible in the Office sector (figure 9).

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



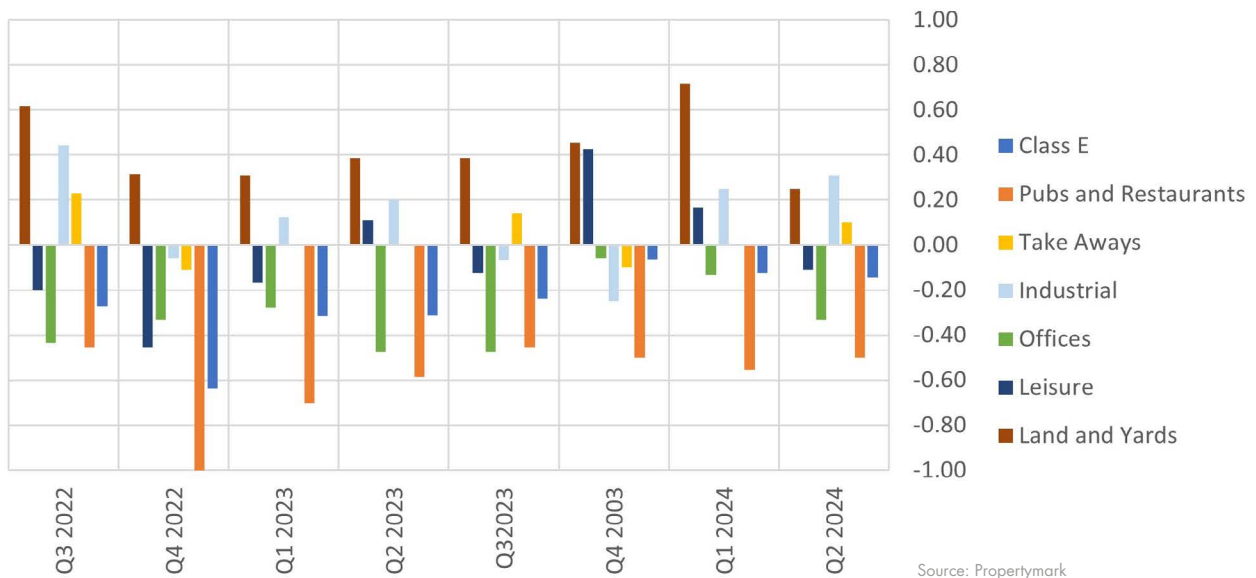
# Rent levels

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.

Their optimism continues about rents in the Land and Yards and Industrial sectors. There has also been a positive shift in rental sentiment in the Take Aways sector. However, sentiment in the Leisure sector has turned negative and agents remain pessimistic about rents in the Office, Pubs and Restaurants and Class E sectors (Figure 10).

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

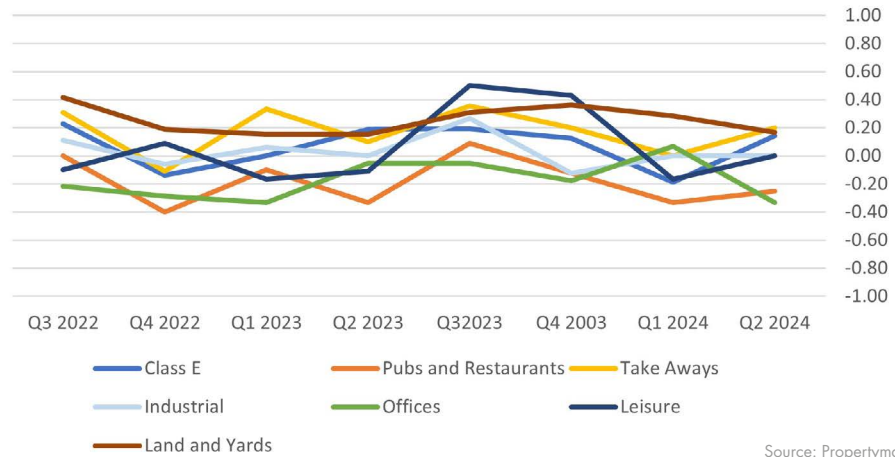


# Investment yields

ALL SECTORS

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

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



Source: Propertymark

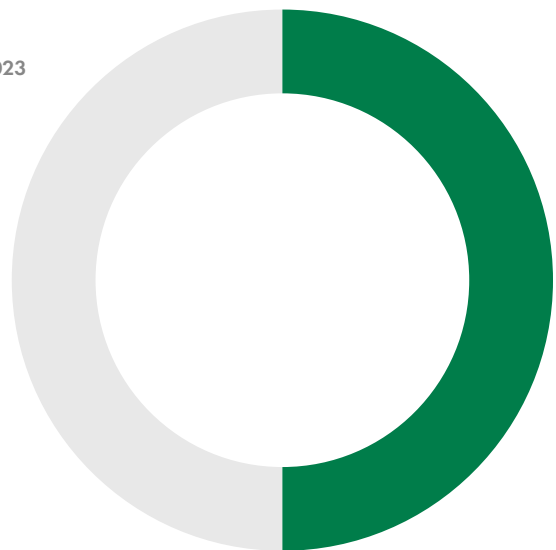
# Rent reviews

We asked our members about the outcome of rent reviews undertaken in Q2 2024. Half (50%) reported that rents were increasing and half (50%) reported that rents were decreasing following review (Figure 12).

Agents reported positive movement in sectors with strong demand such as the Industrial sector. However, in other sectors agents were cautious about carrying out our rent reviews. As one noted:

'As the market has slowed down in some sectors, we have held off carrying out rent reviews where we believe there is a risk that the tenant could exercise a break and vacate the property.'

Figure 12: Outcome of rent reviews undertaken in Q4 2023



Source: Propertymark

- Rents are increasing following review (50%)
- Rents are staying the same following review (50%)
- Rents are decreasing following review (0%)



# Key challenges

Each quarter we ask our members to highlight the biggest challenges they face operating within the sector. This quarter agents pointed to 'supply and demand imbalances', 'unrealistic pricing expectations', 'high interest rates', and a slow-down in 'sales progressions', amongst others:

"Uncertainty about Government policy and legislative changes."

"Current issues are getting Landlords to commit to transactions, but it seems Purchasers and Lessors are prepared to wait for longer before moving on."

"High building costs, difficult trading conditions due to poor economic outlook."

"A decreasing demand for rental property as a whole, interest rates squeezing yields and a lack of opportunities to acquire property, especially industrial."

"The uncertainty over how the new government will review rates liability is stifling demand as with the first reduction of interest rates could encourage occupiers but not if they face rates liability risks. This needs to be set out by the new government very swiftly."

## MEMBER INSIGHTS

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



"Entry level enquiries have been static. Better quality enquiries were subdued during the election uncertainty. There was a strong demand from owner occupiers but polarised opinion to the general market was at much lower levels than well timed operational demand."

**Jake Smith, Director, Cooper and Tanner**



We've not seen the bottom of the market yet for retail food & beverage and may still have some way still to go. The outlook, however, is more optimistic with a rate cut in sight, lowering inflation and the conclusion of the general election. Convenience stores have bucked the trend and have been and continue to be in high demand both for both existing and new sites.

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

## 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](https://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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