

propertymark

Commercial Outlook



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

Q3

2024

KEY HIGHLIGHTS:

50%

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

40%

of members forecast an increase in supply within the Industrial sector.

43%

of members expect rents to decrease within the Office sector over the next twelve months.



The biggest single problem for commercial agents is the transaction time for leases. Five years ago, it took an average of a month for leases to be drawn up after terms were agreed and sent to solicitors.

Nowadays it takes a minimum of three months, not dissimilar to residential sales. This has a knock-on effect on the economy. Bearing in mind, in commercial agency, around 80-90% of what we tend to deal with is leasing, only 10-20% sales.

I dream of when the digitalisation of property transactions will reduce this delay. Businesses want to move quickly when their mind is made up and fall-through rates would greatly reduce if the progression time was shortened.



Michael Sears
Commercial Advisory
Panel Member
and Propertymark
Board Member



Nathan Emerson
Propertymark CEO

“Although we have seen key aspects of the economy stabilise, the commercial property sector continues to face challenges, as many business sectors evolve to keep pace with ever-progressing trends and shifts in demand.

“The pubs and restaurants sector continues to witness a long-term transition in demand, with sustained dips in outlet numbers now apparent across many years. Likewise, evolutions in working practice have allowed many companies to reconsider the amount of physical office space needed operationally, and again we are seeing sustained change.

“It’s positive to see a strong supply and demand within the land and yards sector, and high levels of confidence within the takeaways sector too.

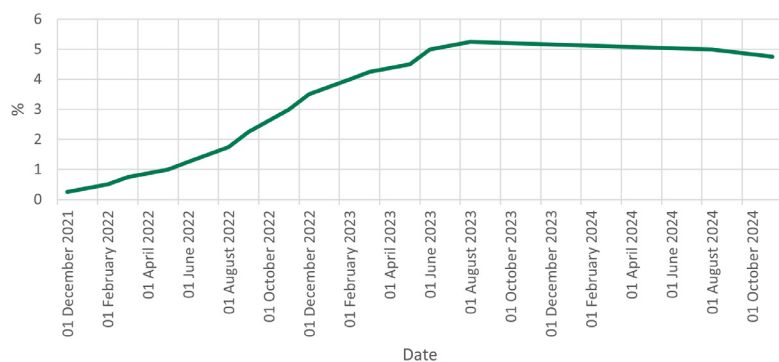
“As many towns and cities embark on substantial regeneration projects, there is huge potential in the medium and long term in delivering prolonged growth across many commercial channels and as time progresses, we expect to see a substantial keenness from many investors.”

Economic outlook

THE BASE RATE REMAINS ON A DOWNWARD TREND

At the end of Q3 2024, the Bank of England base rate descended to 5% (Figure 1).

Figure 1: Bank of England base rate

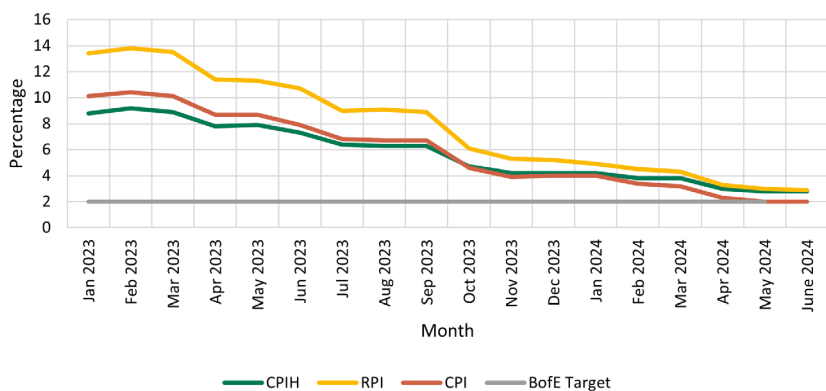


Source: Bank of England

INFLATION DIPS TOWARDS TO THE BANK OF ENGLAND’S TARGETED RANGE

In the 12 months to October 2024, inflation dropped to sit broadly in line with the Bank of England target of 2% (Figure 2).

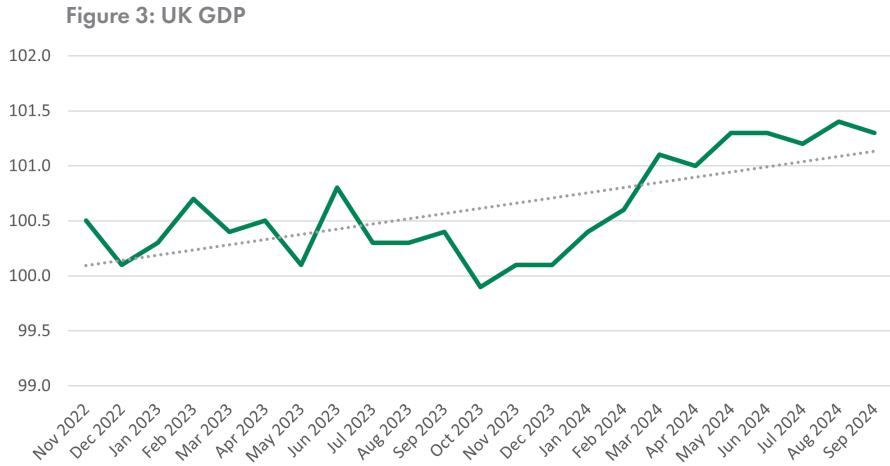
Figure 2: Inflation percentage change (12-month period)



Source: Office of National Statistics

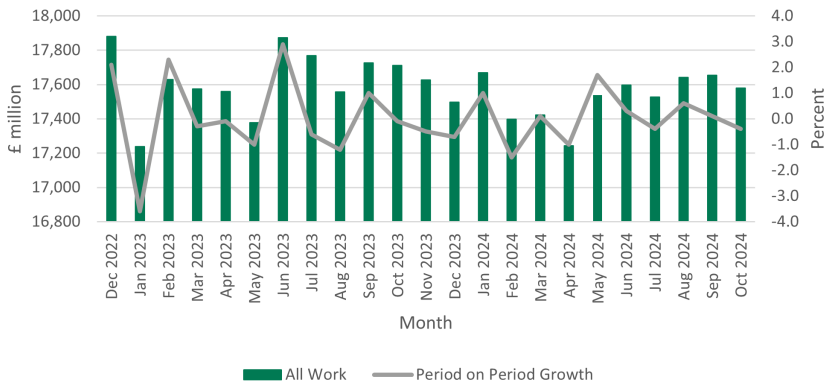
GDP GROWS

The latest figures demonstrate that GDP grew year on year between October 2023 and October 2024 (Figure 3).



Source: Office for National Statistics

Figure 4: Construction output all work summary (Chained volume measure, seasonally adjusted, 2022 prices)



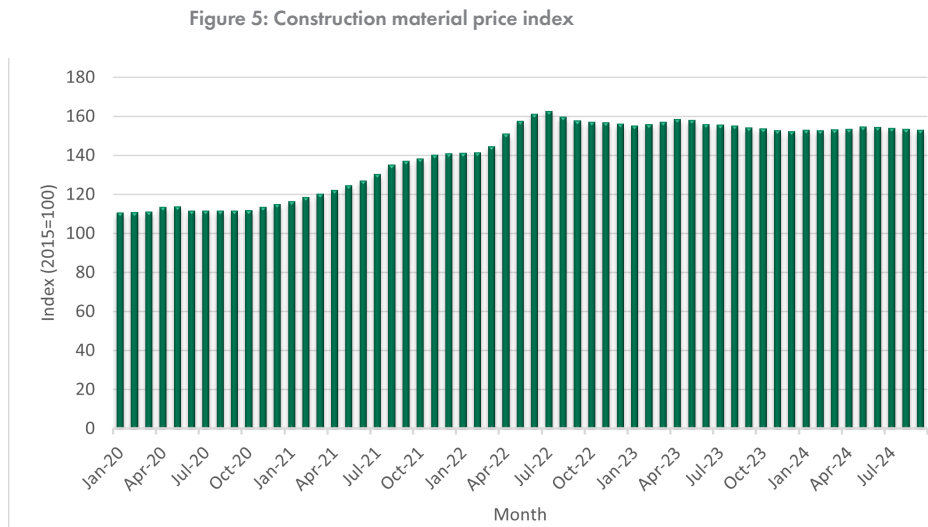
CONSTRUCTION SECTOR OUTPUT TRENDS DOWNWARD

As can be seen in Figure 4, the monthly construction output price data continued to vary across Q3 2024.

Source: Office for National Statistics

CONSTRUCTION MATERIAL PRICES REMAIN STATIC

The construction material price index remained broadly static heading towards the end of Q3 2024 (Figure 5).



Source: Department for Business and Trade

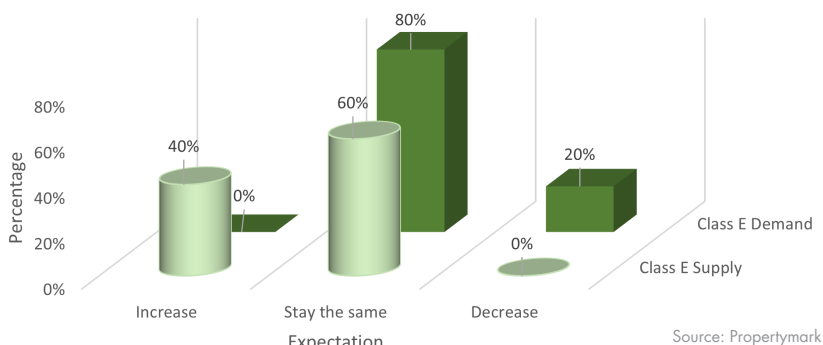
Supply and demand

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. 40% forecast an increase in supply, whereas 20% foresee a potential decrease in demand (Figure 6).

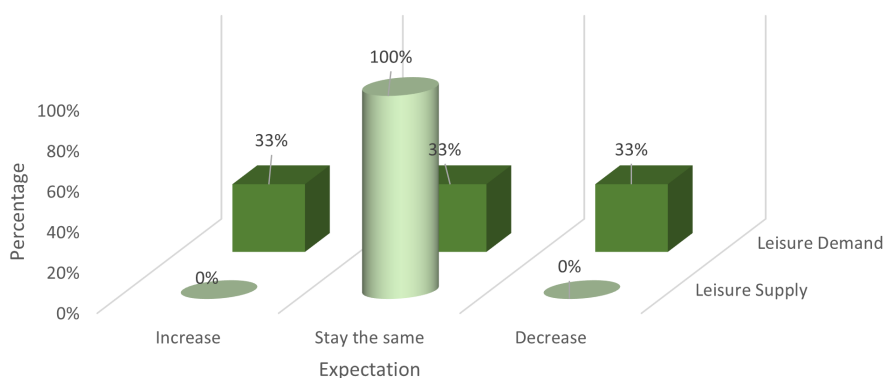
Figure 6: 12-Month Supply and Demand Forecast (Class E Sector)



LEISURE SECTOR

100% predicted supply would remain constant, whilst there was a mixed consensus regarding future demand (Figure 7).

Figure 7: 12-Month Supply and Demand Forecast (Office Sector)



Source: Propertymark



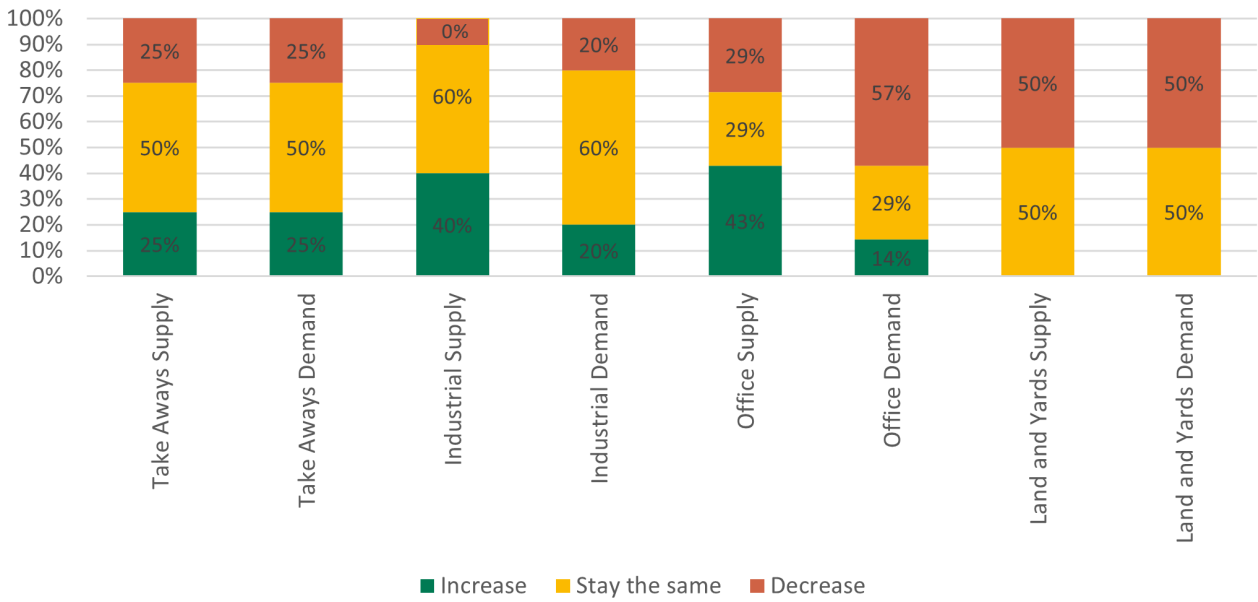
Please note, use classes differ in other parts of the UK.

OTHER SECTORS

Supply and demand expectations continue to fluctuate in the other sectors our members operate within (Figure 8). In the industrial supply sector, 40% of agents forecast that supply will increase and 60% feel that demand will remain static.

In the office supply sector, 43% of agents forecast an increase in supply, whereas just 14% forecast an increase in demand.

Figure 8: 12-Month Supply and Demand Forecast (Other Sectors)



Source: Propertymark

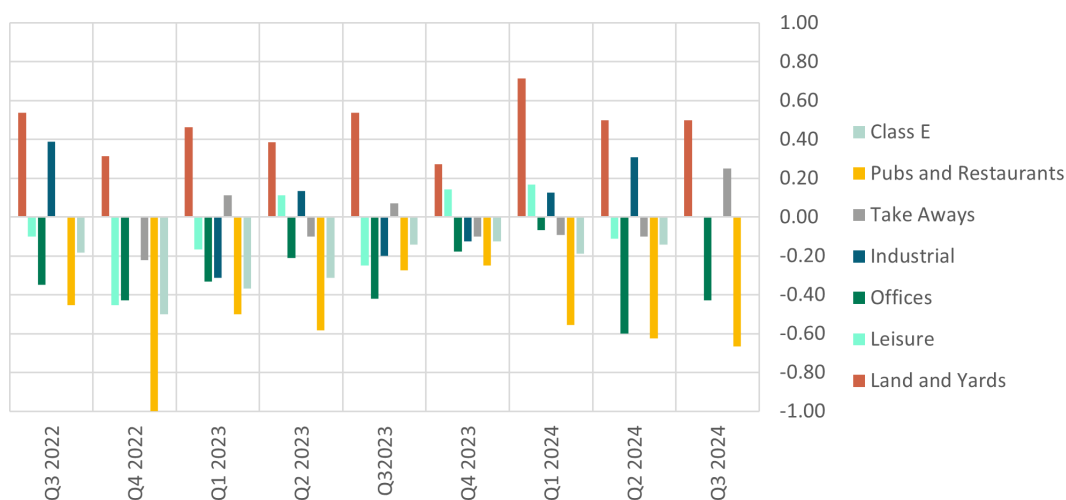
Capital values

ALL SECTORS

Member expectations about capital values to increase, decrease or stay the same over the next year within each sector they operate were sought. 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 remain*.

Sentiment trends have persisted in key sectors. For example, the land and yards remain positive. In the takeaways sector, sentiment has turned positive for the first time in twelve months. However, the pubs and restaurants sector remain negative and has further declined against the last quarter. (Figure 9).

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



Source: Propertymark

* The same methodology is adopted for our insights into rent levels and net yields.

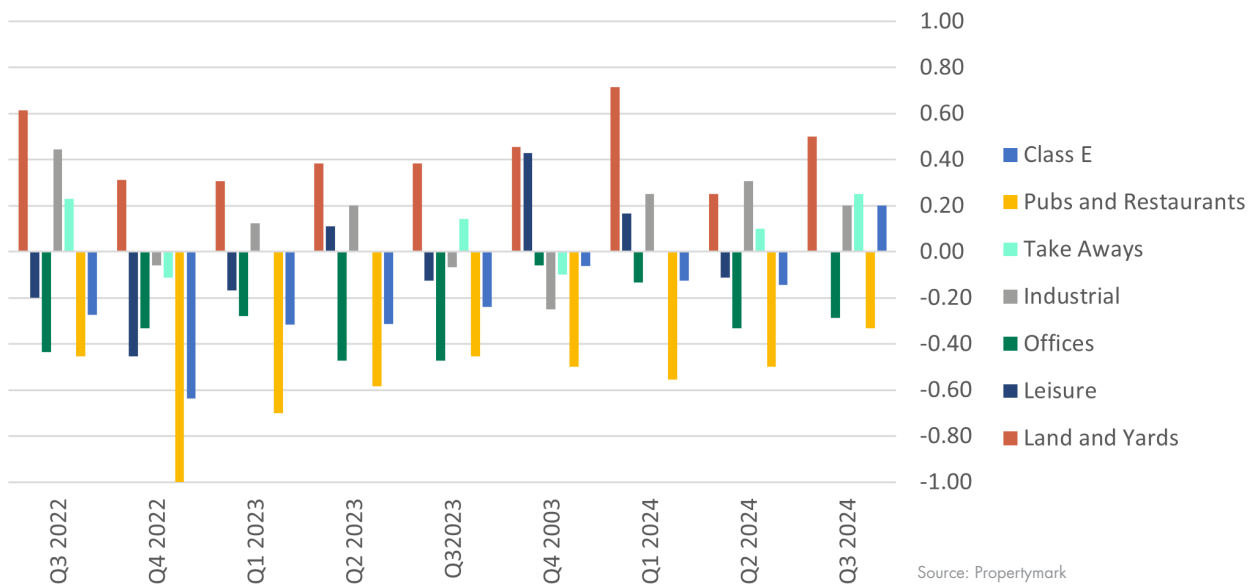
Rent levels

ALL SECTORS

Our members were asked about expectations for 2025 rent levels*. Their continued optimism is seen in the industrial, land and yard sectors. There has also been a positive shift in rental sentiment in the takeaways sector.

However, sentiment in the pubs and restaurants sector remains negative and agents remain pessimistic about rents in the offices sector. (Figure 10).

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



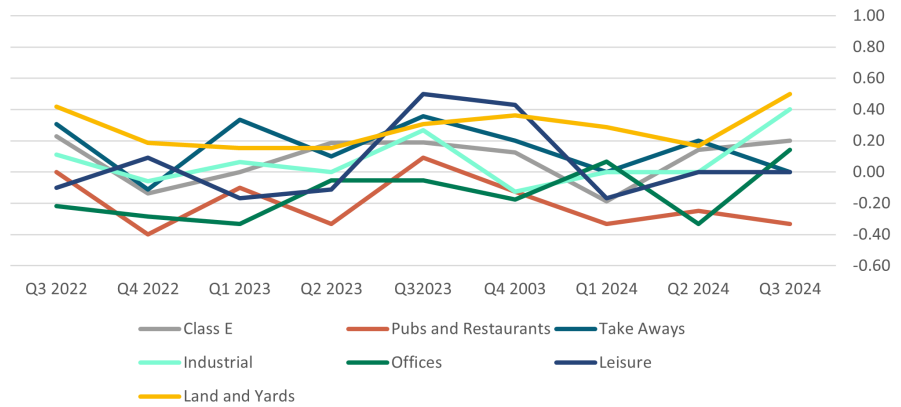
* ITZA levels in the case of the Class E sector.

Investment yields

ALL SECTORS

Expectations for investment yields in the coming twelve months vary by sector with swings in sentiment visible within the leisure, office, industrial and land and yards sectors (Figure 11).

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

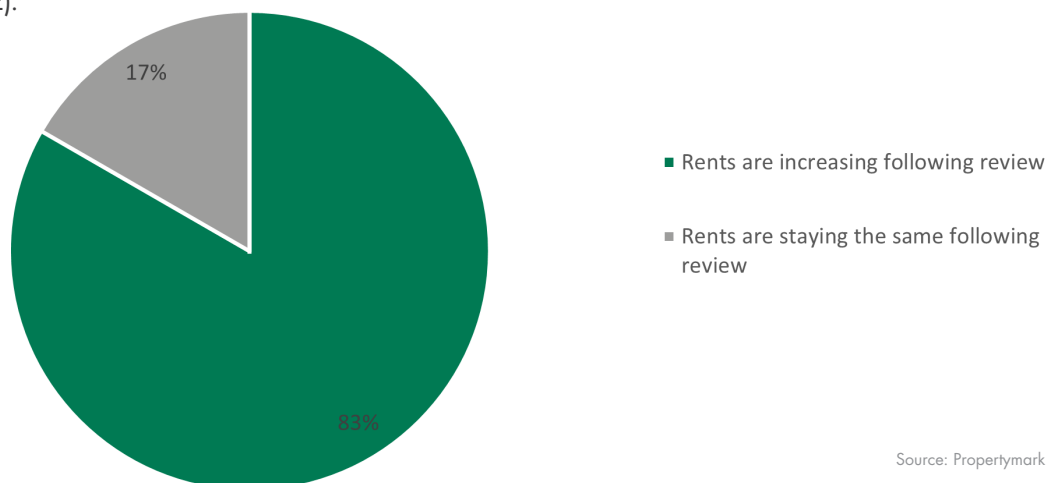


Source: Propertymark

Rent reviews

We asked our members about the outcome of rent reviews undertaken in Q3 2024. 83% reported that rents were increasing and 17% reported that rents were decreasing following the review (Figure 12).

Figure 12: Outcome of rent reviews undertaken in Q4 2023



Source: Propertymark

Key challenges

Each quarter we ask our members to highlight the biggest challenges they face operating within the sector. This quarter agents pointed towards 'too much regulation' and 'fiscal policy' amongst others:

"Requirements for office space, high service charge costs due to utilities."

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

"Supply in town centre retail low"

"Fiscal policy remains challenging"

MEMBER INSIGHTS

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



It's a relatively mixed outlook now with the positivity post-election and the downtrend of interest rates being overshadowed by the budget, with many owners/occupiers now reassessing their plans and it will be sometime before we see the full impact.

Jason Payne, Montane Group

TAKE THE NEXT STEP

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

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://www.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 regulated its member agents. This is a nationally recognised regulatory brand and provides 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 Q3 of 2024. It is supplemented with an analysis conducted by Propertymark of key statistics relevant to the commercial property market.

ABOUT PROPERTYMARK

Propertymark is a leading professional body comprising commercial and other property sector agents. We are member-led with a Board of practising 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 aims 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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