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Commercial Property Market Review

July 2024

A report from Carter Jonas indicates some growth in commercial markets recently

According to MSCI, annual retail rental growth was 0.9% in May – the highest annual growth rate since 2016. While rental values have grown modestly since 2022, values are still 17% lower than the peak seen in 2018.

In the retail warehouse subsector, rental values increased by 1.3% in the year to May 2024. Meanwhile, shopping centre rental values continue to drop with an annual decrease of 1.5% reported in the year to May.

With regards to the office sector, average rental growth was recorded at 2.5%, with the central London market moving ahead of the south east and regional markets. Despite their cost, high-quality office spaces are in high demand as they are perceived to help to improve employee wellbeing and attract new recruits.

There is limited supply of new units in many key markets, including the industrial sector. However, occupiers are expected to sublease if they have surplus space, which should boost supply.

How is the market faring in Scotland?

Scottish investors seem to be treading carefully as the commercial property market has seen a dip in sales this year.

According to Knight Frank data, almost £750m was invested in Scottish commercial property in H1 2024 – down 19% when compared with the same period last year. Retail property made up 51% of the total investment volume, followed by hotels (19%) and offices (16%).

The most active buyers were real estate investment trusts (REITs) and listed property companies, who accounted for 32% of investment volumes, while international investors made up 30%.

Despite the fall, there has been a spread of different investors this year, which is promising. Head of Scotland Commercial Property at Knight Frank, Alasdair Steele, commented, *"Over the last decade international buyers have come to account for the majority of investment in Scotland, but in the year to date there has been a much more even share, with institutional investors buying as well as selling, alongside increased interest from private equity and property companies."*

Large offices difficult to sell in the capital

Large London office buildings have become very difficult to sell, as investors are deterred by high interest rates and the move to hybrid working, according to research.

Data from JLL has found that central London office sales total £2.5bn so far this year – 28% lower than in 2023. The City of London used to see deals topping £1bn, but in H1, only a handful of office buildings over £100m have been sold, according to CoStar.

An MSCI index indicates that 64% of investors would make a loss if they sold their London offices now. Office landlords struggling to sell include GPE and Derwent, who have reportedly not had high enough offers on their priciest buildings.

Commercial property currently for sale in the UK

- **South West England** has the highest number of commercial properties for sale
- **Scotland** currently has **1,269** commercial properties for sale with an average asking price of **£354,969**
- There are currently **913** commercial properties for sale in **Wales**, the average asking price is **£464,686.**

Source: Zoopla, data extracted 18 July 2024

Region	No. properties	Avg. asking price
London	1,867	£1,301,518
South East England	1,715	£670,431
East Midlands	890	£650,870
East of England	985	£638,966
North East England	853	£351,693
North West England	1,532	£563,209
South West England	1,893	£567,967
West Midlands	1,161	£523,048
Yorkshire and The Humber	1,208	£355,193
Isle of Man	34	£541,117
Scotland	1,269	£354,969
Wales	913	£464,686
Northern Ireland	3	£16,665

New Bond Street drives West End investment market

According to Savills, sales in the West End investment market were muted in May with only six transactions, worth a total of £166m.

So far this year, there have been 51 deals totalling £1.83bn – 40% of these assets were worth less than £20m. There is £2.3bn of available supply, with only seven options above £100m.

Four trades have taken place at New Bond Street in 2024, accounting for 22% of this year's cumulative investment volumes. Savills notes, *'The street's defensive investment characteristics, including high letability prospects and robust rental growth forecasts, is a key driver for investors seeking long-term wealth preservation.'*

In the most recent transaction, the virtual freehold interest in 126-127 New Bond Street was acquired by Weybourne, having previously been owned by a private investor in Hong Kong. It is understood to be priced at £71m.

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