

Outlook for UK commercial property brighter as more respondents believe market has bottomed out

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The [RICS UK](#) Commercial Property Monitor for Q4 2023 revealed some growing confidence in its long-term outlook. While mixed, the largest proportion of respondents in Q4 (33%) now believe that the market has bottomed out, seemingly aiding a slightly more positive long-term outlook.

While most of the market remains sluggish and lacking momentum, there are clear incremental improvements. Occupier demand remained negative overall (-7%), although less so than previously (-12% Q3), and although both the office and retail sectors remain relatively weak, sentiment has improved from Q3. Industrial demand remains positive although less so from previous highs.

It should be noted that prime property continues to outperform secondary units. With footfall crucial for retail, as well as energy costs continuing to rise, the location and relative energy efficiency of prime units are likely encouraging further positive momentum.

The outlook for prime retail rents has, for example, stabilised with the twelve-month expectations net balance moving to -4% from a value of -13% in Q3. In fact, this reading marks the least negative view on prime retail rents since Q1 2018.

When looking at the regional results, the national picture is largely mirrored throughout most parts of the country. For London however, the prime office and retail markets stand out as exhibiting stronger rental expectations and are firmly in the positive while secondary office space appears to be under even greater pressure across the capital. Industrial in the Midlands is particularly strong.

Overall investment demand remains relatively soft, evidenced by the all-property investment enquiries indicator reporting a net balance reading of -19%. Similarly, overseas investment enquiries also continue to slip, with all sectors seeing a decline (to a greater or lesser degree) in Q4. In its [Manifesto for the Built Environment](#), RICS called for a defined national real estate roadmap attractive to inward investment. This would be a holistic national strategy which attracts and deploys inward foreign investment on a national scale, benefitting the whole economy.

There was a notable improvement to sentiment in credit conditions reporting a much flatter -5% reading, compared to the significantly more negative -44% and -75% seen in Q3 and Q2, respectively.

RICS Senior Economist, Tarrant Parsons, said: “Current conditions remain challenging across the UK commercial property market, with investor demand still being weighed down by the tighter lending climate and uncertain outlook for values. At the same time, relatively weak momentum with respect to economic activity more generally is taking its toll on tenant demand, with the ongoing structural challenges facing parts of the office and retail sectors also hampering market sentiment. That said, the significant turnaround in expectations for monetary policy of late provide a reason for cautious optimism going forward, and the latest results do point to a more stable backdrop for credit conditions coming through this quarter.”