

Uncertainty yet to dampen property market demand for higher quality, sustainable offices

3 months ago



According to the [Royal Institution of Chartered Surveyors](#) (RICS) UK Commercial Property Monitor Q4 2024, the UK's Commercial Property Market faltered slightly in Q4, although the long-term outlook remains positive, buoyed by a resilient and competitive prime office sector as well as industrial property demand.

In Q3, 44% of respondents said that they thought the market had entered an early upturn phase, meaning the largest proportion of respondents still believe that the market is still in the middle of moving upwards. 4% believe the market is a little further up the cycle in a mid-upturn phase.

Tenant demand overall remained steady in Q4, seeing a net balance of a perfectly flat zero reading from a marginally positive +5% in the prior quarter. When looking closer at the sectors, retail property saw a fall in demand, but industrial and Office demand remained in positive territory (+7% and +3%, respectively), although the figures for both are weaker than Q3.

Demand for prime, quality space continues to rise whilst interest in secondary property stagnates. This is demonstrated by how different future rent expectations are between prime and secondary properties. Industrial (net balance +55% of respondents) and prime office rents (net balance recorded +40%) are expected to rise. Conversely, sentiment towards future rental prices for secondary office and secondary retail space remained negative, with secondary office property rated at -45% in London. These expectations demonstrate the growing chasm of interest between high-quality, energy-efficient commercial property and the secondary market. As energy costs rise and companies continue to try and entice their staff back into the office with higher-quality surroundings, rising demand for prime office space

in particular will likely continue for the foreseeable future.

As the UK discusses pushing for growth, the near-term outlook for capital values deteriorated in Q4 - likely connected to uncertainty in the bond markets. Investment enquiries remain relatively flat to negative for office space (-11%) and retail (-13%), however industrial retained a positive reading this month at +8%.

RICS Head of Market Analytics, Tarrant Parsons, said: "The closing quarter of 2024 saw sentiment in the UK Commercial Property market soften a little, with bond market uncertainty impacting credit conditions and investment. This has not however soured long-term confidence in the market. Prime industrial and office assets continue to demonstrate resilience, and the gap between modern, energy-efficient commercial property and the rest expanded again. According to some of our respondents, rising rents are enabling developers to refit and improve their properties in what is a competitive prime market. Many are employing a 'wait and see' attitude towards the commercial property sector and the impact of the government's policy package, reflected in a flatter outlook this past quarter. The latest announcements by the Chancellor should help support confidence in the real estate sector."