UK commercial property signals early recovery but NI and Trump tariffs raise uncertainty

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The Royal Institution of Chartered Surveyors (RICS) has released its Q1 2025 UK Commercial Property Monitor, revealing that while market sentiment remains generally cautious, early indications suggest that certain sectors are beginning to show signs of improvement.

RICS Chief Economist, Simon Rubinsohn, said: "Despite the turbulence engulfing the geo-political environment following President Trump's tariff announcement at the start of April, feedback to the latest RICS was steady with the headline investment enquiries metric returning to positive territory, albeit modestly, for the first time since the second quarter of 2022.

"Longer term indicators, while generally constructive, continue to reflect the likely headwinds facing the real estate market over the next twelve months. Aside from the challenges linked to the global economy, concerns around domestic issues including the impact of the uplift in NI contributions are seen as likely weighing on occupier demand.

"Meanwhile the bifurcation in the office sector remains very visible in the latest results with the outlook for prime space seemingly improving as sentiment around secondary offices remains deeply negative."

Key highlights from the report include:

- Occupier Demand: All-property tenant demand posted a net balance of +1%, consistent with a broadly flat picture. The office (+6%) and industrial (+9%) sectors showed modest gains, while the

retail sector continued to struggle with a net balance of -1.
- NI and Trump Tariffs: Respondents across the country identified the rise of National Insurance contributions increasing financial pressure on occupier clients as well as US tariff policies creating uncertainty in the market.
- Rental Outlook: Prime industrial and office spaces are expected to achieve rental growth of 2.2% and 2.1% respectively over the next 12 months. In contrast, secondary retail and office rents are anticipated to fall by 3.2% and 2.6%. Alternative sectors such as data centres (+4%), multifamily residential (+2.7%), life sciences (+2.4%), and aged care facilities (+2.2%) are forecast to lead rental growth according to net balance sentiment.
- Investor Sentiment: Headline investment enquiries posted a slight improvement, with the net balance moving to +4% from -4% last quarter. The industrial sector continues to outperform, with a notable rise to +18% in investment demand.
- Capital Values: Prime industrial and office assets are expected to appreciate by nearly 2% over the coming year, while secondary office and retail values are likely to decline by around 2.5%. Once again, alternative sectors are set to outperform, led by data centres and multifamily housing.
- Regional Trends: Central London prime offices remain the standout for rental growth, with a projected rise of nearly 5%. Northern Ireland and Scotland show the strongest expectations for prime industrial rental growth, while retail rental optimism is limited mostly to Scotland and North East England.

Many respondents noted the impact of US tariffs on the commercial property market, including Graham Chase of Chase Sinclair Clark who raised these concerns in London, whilst Duncan Locke of McWhirter Locke Ltd highlighted several domestic issues affecting the market: “The overall effects of stubborn energy costs inflation, Rateable Value increases and National Insurance rises are affecting small businesses and their decision-making regarding property occupation.”