Sun Mortgage and Protection Ltd

The Porter Building
1 Brunel Way
Slough
Berkshire
SL1 1FQ
07388 116879
info@sunmap.co.uk
www.sunmap.co.uk

Commercial Property Market Review

January 2025

Commercial property outlook for 2025

According to Savills, the outlook is for increased stability in the UK commercial property market for 2025, following a 20% rise in investment volumes for the office and industrial sectors in 2024.

With two Bank Rate reductions and expectations of further cuts, borrowing costs look set to decrease, enhancing investor confidence. Economic growth is projected to accelerate, benefiting commercial real estate and driving occupational markets, which have shown resilience with low vacancy rates and above-average prime rental growth.

Savills predict renewed institutional interest in UK retail sectors, including prime shopping centres and retail parks, due to rising rents and increased consumer confidence. The office sector is also expected to experience significant growth, with limited new supply and improving business demand leading to strong rental growth across various quality segments. Overall, Savills expresses cautious optimism for a commercial real estate recovery in 2025.

A new industrial revolution

According to research by JLL, the new industrial revolution, driven by advances in artificial intelligence (AI), robotics, and the push for sustainability, is significantly reshaping the UK's commercial property market.

As industries adopt cutting-edge technologies, there is a growing demand for modern facilities equipped to support automation, AI integration and energy-efficient operations. Warehousing and manufacturing spaces are evolving to include smart infrastructure capable of enhancing productivity while aligning with net-zero carbon goals.

This shift is transforming investment strategies in the industrial real estate sector. Developers are prioritising properties that incorporate renewable energy solutions, adaptive designs and advanced digital systems. Additionally, urban locations with access to strong transportation networks are increasingly sought after to facilitate efficient supply chains and rapid delivery services.

The research concludes that the changes brought about by this industrial revolution are not only redefining the physical requirements of commercial spaces but are also influencing the broader economic landscape, fostering innovation and driving sustainable growth across the UK.

A *'year of opportunity'* for Scottish commercial property

Scotland's commercial property sector is poised for a promising 2025, with experts predicting a *'year of opportunity.'* Lismore Real Estate Advisors report that Q4 2024 saw £406m in investment transactions, a 6% increase from the same period in 2023, though 4% below the five-year average.

Notably, Scotland remains 'on the radar' for overseas investors, with interest in office, industrial and retail warehousing. The market is expected to stabilise in 2025 and while interest rates are anticipated to decline gradually and inflation may stay slightly elevated, substantial yield compression is unlikely. Early 2025 is expected to see investors prioritising income potential over yield shifts, with momentum building as the year progresses.

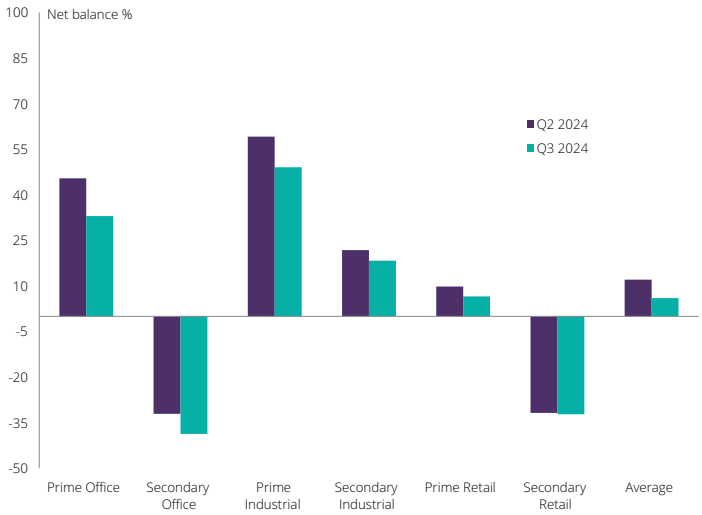
Despite challenges like economic contraction and budget pressures, nearly 90% of respondents view 2025 optimistically, with fund and investment managers particularly positive. Lismore's Director, Simon Cusiter, notes that after a challenging period, the market shows clear signs of recovery, with rising investment volumes, easing interest rates and returning confidence.

Commercial property outlook

12-month capital value expectations – broken down by sector

- Twelve-month projections are firmly positive regarding prime industrial assets (+49%), prime offices (+28%) and secondary industrial (+20%)
- For prime retail values, expectations are marginally positive, at a net balance of +9%
- Respondents are downbeat about capital value growth across the secondary office and retail sectors, returning net balances of -29% and -21% respectively.

12-month rent expectations – broken down by sector



- A net balance of +48% of contributors foresees prime industrial rents moving higher, with the figure standing at +18% for secondary
- Prime office rents are seen rising by a net balance of +33% of respondents
- The outlook remains firmly negative for secondary office rents, at a net balance of -39%.

Source: RICS, UK Commercial Property Market Survey, Q3 2024

Commercial property predictions for the year ahead

Colliers has set out the key trends it expects to see in the commercial property sector for 2025. Retail is expected to see heightened competition for prime locations, though higher business rates on properties valued over £500,000 may challenge large retailers' profitability.

Student housing and build-to-rent properties will likely undergo significant refurbishments, addressing the demand for upgraded, modern facilities. Hotels are poised for growth as tourism continues to recover, despite current development hurdles.

Dr Walter Boettcher, Head of Research at Colliers, said, *"The challenges of recent years have laid the groundwork for a reimagined industry – one where creative investment strategies, bold occupier decisions, and the ability to adapt to evolving demands will set the pace."*

Demand for industrial and logistics spaces is predicted to stabilise, aligning with pre-pandemic levels. Across the sector, the emphasis will be on sustainable and flexible solutions to meet evolving market needs and drive investor confidence in the year ahead.

All details are correct at the time of writing (16 January 2025)

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.