

Commercial Property Market Review

April 2025



Office market outlook brightens as demand outpaces supply

The UK office market is recovering, with new data pointing to a steady increase in demand.

Rightmove's Commercial Insights Tracker reported interest in office space rose 11% in Q4 2024 compared to Q4 2023, while supply grew by just 2%. The investment side of the market saw even greater momentum, with demand up 57% against a 1% rise in available stock.

The findings reflect positive industry forecasts for the commercial property market. CBRE confirmed companies that planned to reduce their office footprint have done so and many are actively expanding again. In central London, twice as many businesses upsized than downsized last year, with one-third of London lettings coming from new entrants. Consultancy Hollis predicts a 10% rise in office employment outside London over the next decade, creating demand for an additional 50 million sq. ft of office space across the UK.

Investor appetite for UK healthcare rises amid stable returns and social need

The sector is set for an investment surge, with 93% of investors planning to boost their allocations, according to CBRE.

Most investors polled in CBRE's Healthcare Sentiment Survey expect transaction volumes to rise in 2025, with specialist and elderly care homes attracting the most capital. Healthcare properties linked to age-related care have shown resilience

during economic downturns and offer dependable income over time. Healthcare operators are also upbeat, with 62% planning to expand in the next five years. While rising staff costs and new tax obligations pose challenges, staffing pressures have eased, with vacancy rates at just 4.3%.

While high construction costs and sluggish planning approvals are still widespread concerns, nearly half of developers plan to take on new projects in 2025. Demand is strongest in the North West, with growing interest in Scotland and Northern Ireland.

Scotland stands out as UK hotel investment hotspot

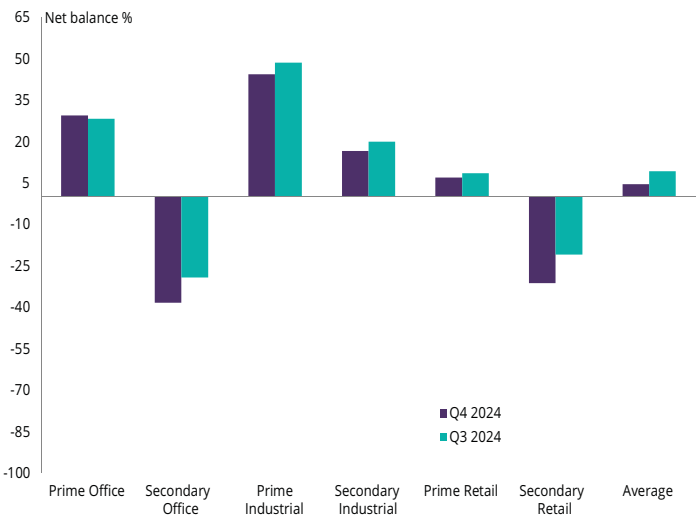
Scotland leads the UK hotel market, with Edinburgh top of Colliers' 2025 Hotel Market Index.

Edinburgh hotels recorded an 85% occupancy rate last year, alongside a 10% rise in average daily rates and a 13% uplift in revenue per available room. According to Colliers, premium pricing, limited development supply and consistent performance makes Edinburgh one of the UK's most attractive hotel markets. Glasgow climbed four places in the rankings, and revenue-per-available-room (RevPAR) rose by nearly 9% in 2024, supported by a busy events schedule, corporate travel and relatively low build costs.

Beyond the capital, Inverness is a rising star, with demand fuelled by experiential tourism and access to the Highlands. A 10% rise in RevPAR and limited competition in new development has sparked interest in boutique and luxury offerings. Together, these three cities demonstrate Scotland's strength as a hotel investment destination.

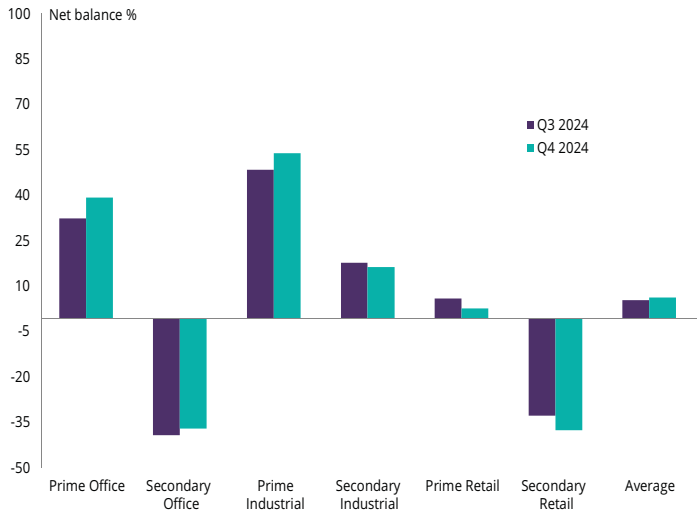
Commercial property outlook

12-month capital value expectations – broken down by sector



- From a headline average perspective, a net balance of +5% of respondents expect capital values to rise over the year to come
- A net balance of +44% of respondents see prime industrial values rising during the next twelve months
- For prime offices, a net balance of +30% of contributors anticipate an increase in values.

12-month rent expectations – broken down by sector



- A net balance of +55% of respondents foresee prime industrial rents moving higher
- Prime office rents are seen rising by a net balance of +40% of respondents
- The outlook remains firmly negative for secondary office rents, at a net balance of -36%.

Source: RICS, UK Commercial Property Market Survey, Q4 2024

US investors break records in UK commercial property market

American investment in UK commercial property surged in 2024, with US buyers spending £13.6 bn, more than twice the amount recorded the previous year.

According to research from the British Property Federation and CoStar Group, US investors have acquired close to £50bn of UK commercial assets since 2021, far outpacing buyers from other countries. Much of last year’s activity was driven by private equity, with major players such as Blackstone, Starwood Capital and KKR behind four of the five largest transactions.

London remains the top destination for global capital, with hotels and mixed-use portfolios dominating deal activity. West End offices in particular showed signs of renewed interest. However, the South East continues to attract strong interest, and the North West and West Midlands have been attracting growing volumes of capital, particularly in the build-to-rent, logistics and student accommodation sectors.

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

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