UK CRE QUARTERLY REVIEW

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Economic update

GLOBAL AND UK ECONOMY

Contact:

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GLOBAL ECONOMY

ECONOMIC UPDATE

WORLD GDP OUTPUT

- The global growth outlook has improved. The IMF upwardly revised its 2023 global GDP growth forecast by +20bps to 2.9%, compared to the October 2022 forecast. The IMF outline resilient consumer demand in the US and Europe, in conjunction with the reopening of China and the recent moderation in energy prices as support for the stronger growth outlook.
- Economic growth expectations for the US has also been upgraded in 2023. The IMF forecast US GDP to grow by +1.4%, up from +1.0% last forecast in October. Similarly, the IMF revised its Euro Area GDP growth forecast for 2023, upgrading it from +0.5% in October to +0.7% in January. For 2024, the IMF expects the US and Euro Area economy to grow by +1.0% and +1.6%, respectively.
- Despite macro economic headwinds, labour markets across many geographies remain tight with low levels of unemployment. US unemployment declined to 3.4% in January, below the long term average (LTA) unemployment of 5.7% and its lowest level since May 1969. German unemployment remained unchanged for the fifth consecutive month at 5.5% in January, also below the 8.3% LTA.

BUSINESS ACTIVITY

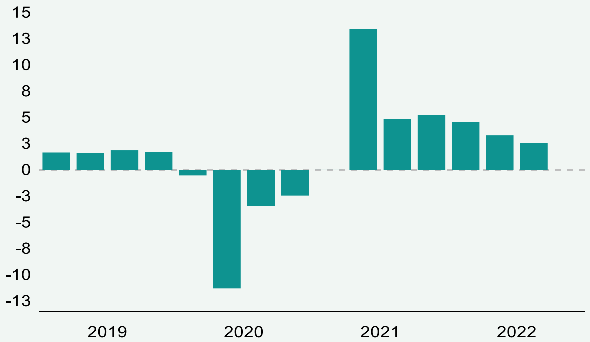
- Global business activity improved in 2023. The Global Composite PMI increased to 49.8 in January, from the 48.2 low in December. However, the global composite PMI has remained in contractionary territory (below 50) since August.
- The Global Manufacturing PMI also improved in early 2023, rising to 49.1 in January from 48.7 in December. Albeit, it remains in contractionary territory for the fifth consecutive month.

INFLATION

- In line with the recent moderation of global oil and wholesale gas prices, inflation appears to have reached its peak across many advanced economies. Indeed the pace of headline price growth has already started to slow in many markets.
- Inflation in the US eased for the seventh consecutive month to 6.4% in January, whilst Euro Area inflation declined to an eight-month low of 8.5% in January 2023.

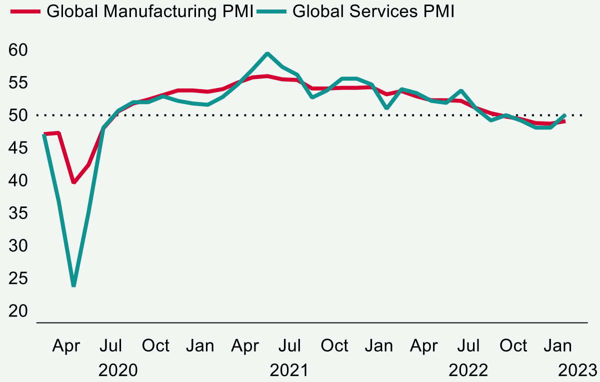
Gross Domestic Product

Quarterly OECD countries GDP growth, % change y/y, seasonally adjusted



Source: Macrobond

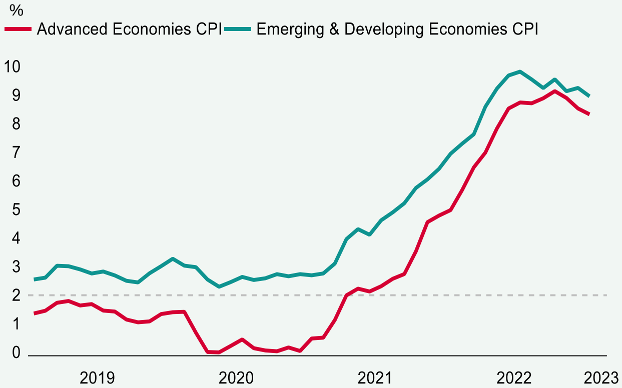
Business Activity Index



Source: Macrobond

Inflation

%



Source: Macrobond

UK ECONOMY

ECONOMIC UPDATE

UK GDP OUTPUT

- UK GDP contracted by -0.5% m-m in December, the first decline in three months. However, the UK avoided a technical recession (two consecutive quarters of falling GDP) in 2022, with flat growth in Q4.
- The Bank of England (BoE) upgraded its GDP forecast for 2023. GDP is now expected to decline by -0.50%, shallower than the -1.50% last forecast in November. This reflects an improved consumption outlook, due to ongoing labour market strength and moderating energy prices.
- A stronger outlook and improving sentiment is typically supportive of leasing demand and investor appetite, something we are seeing reflected in a more positive real estate narrative.
- For 2024, the BoE forecast GDP to decline to-0.25% (previously -1.50%).

BUSINESS ACTIVITY

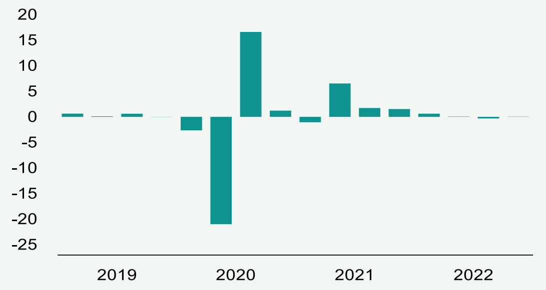
- The UK Composite PMI fell to 48.5 in January, from 49.0 in December, the sixth consecutive contraction (figure below 50) in the private sector, and the longest period of continuous decline since the GFC.
- The UK Manufacturing PMI improved to 47.0 in January, from the 31-month low of 45.3 in December. Meanwhile, the UK Services PMI edged down to 48.7 in January from 49.9 in December.

INFLATION

- The UK annual inflation rate slowed for the third consecutive month in January to 10.1%, its lowest level in six months and lower than expectations of 10.3%.
- The moderation in wholesale energy prices has also impacted the BoE inflation outlook, with headline inflation now forecast to fall to 4.0% in 2023 (5.25% last forecast), albeit, domestic inflationary pressures are likely to persist over the next few quarters.

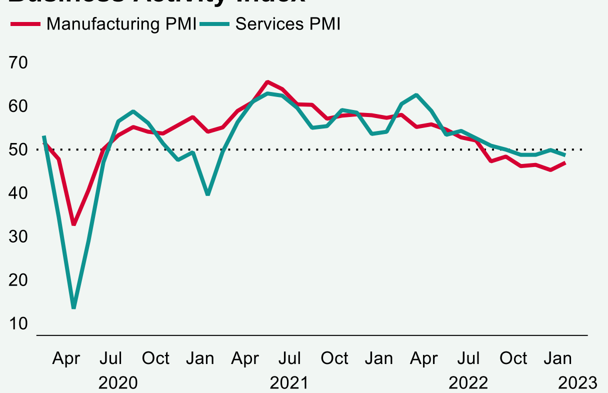
Gross Domestic Product

Quarterly UK GDP growth, % change y/y, constant prices, seasonally adjusted



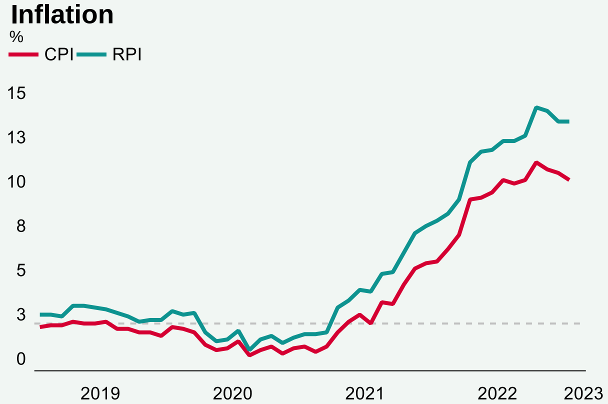
Source: Macrobond, ONS

Business Activity Index



Source: Macrobond, S&P Global/CIPS

Inflation



Source: Macrobond, ONS

Capital markets

UK COMMERCIAL REAL ESTATE

Contact:

Antonia Haralambous

CAPITAL MARKETS

COMMERCIAL REAL ESTATE

INVESTMENT

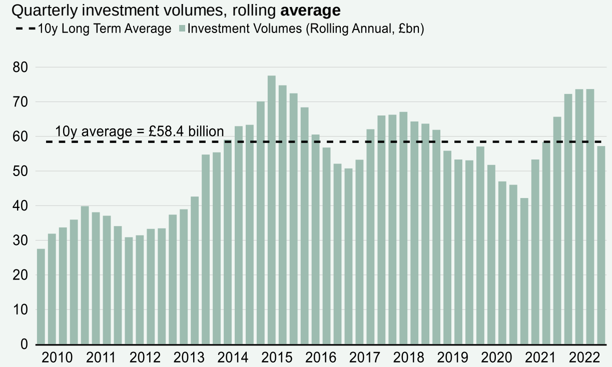
- UK commercial real estate (CRE) investment totalled £57.3 billion in 2022, 13% below investment in 2021 and 14% above the annual long term average.
- However, investment into UK CRE showed signs of moderation in Q4, with investment down by -69% y-y to £7.4bn, which compares to £23.8bn in Q4 2021.
- The Specialist sectors were the most invested sectors in 2022, with £22.8bn or 40% of total investment, followed by Offices and Industrial with a 25% and 24% share, respectively. Retail had the smallest share of total investment at 11%.
- Industrial had its second strongest year on record in 2022 with £13.6bn invested, down from 2021's all time high of £18.4bn. Meanwhile, Shopping Centres had their best year for investment since 2017 with £1.9bn invested which was up 55% year on year.
- Cross-border investors contributed to 50% of UK CRE volumes in 2022, above their 46% share in 2021, albeit down -5% year on year from £30.4 billion in 2021 to £28.8 billion in 2022.

OUTLOOK

- Real estate performance is expected to polarise this year. Increased investor demand combined with the financing landscape may mean that the spread between prime and non-prime yields widen, with some non-prime assets potentially repricing to levels which become economical to be refurbished to a suitable, ESG enhanced level.
- Overall, 2023 is likely to see increased focus on smaller lot sizes, domestic activity, and a refocus on private and other investors. Specialist sectors such as Student Accommodation and Build to Rent (BTR) are likely to see robust demand for next year due to their counter-cyclical properties and low volatility.
- Overseas capital from the US, Canada, Germany, the UAE, Singapore, Sweden, and Japan amongst others are expected to drive inbound investment into the UK in 2023.
- Despite macro economic headwinds, the UK CRE market is supported by currency benefits, relatively attractive yields compared to core mainland European locations and its liquid, safe-haven profile.

Investment volumes

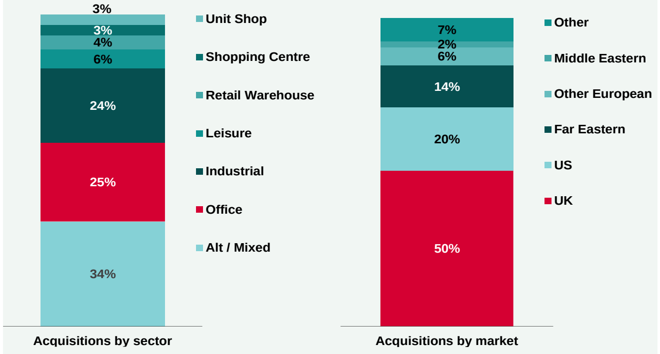
Quarterly investment volumes, rolling **average**



Source: Property Data

Investment volume breakdown

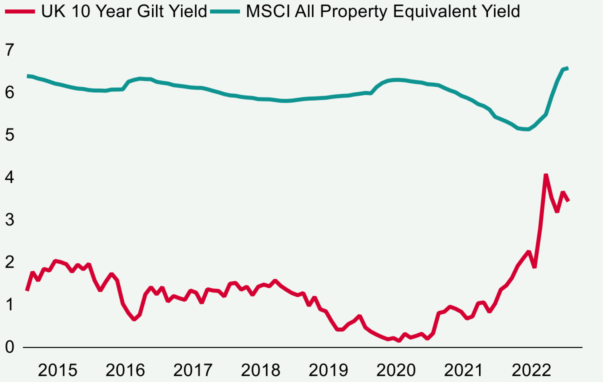
Percentage of YTD 2022 volume



Source: Property Data

Property equivalent yield & gilt yield

%



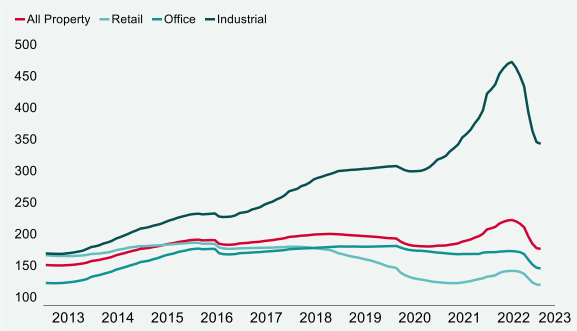
Source: Macrobond, MSCI

CAPITAL MARKETS

COMMERCIAL REAL ESTATE

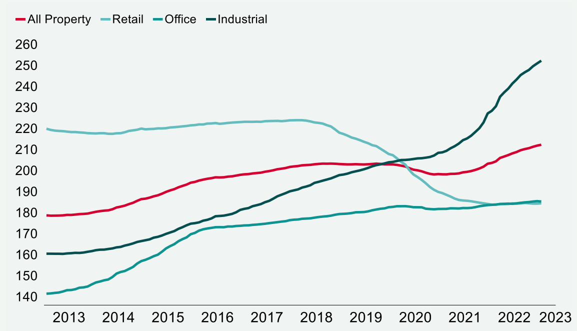
MSCI Capital Value Growth Index

Dec 1986 = 100



MSCI Rental Value Growth Index

Dec 1986 = 100



Source: Knight Frank, MSCI

IPF Consensus Capital Value Growth Forecast

%, November 2022

Source: Knight Frank, IPF

IPF Consensus Rental Value Growth Forecast

%, November 2022

Source: Knight Frank, IPF

Offices

THE CITY, WEST END, DOCKLANDS, SOUTH EAST & UK CITIES

Contact:

London – Shabab Qadar

South East & UK Cities – Darren Mansfield

CITY OFFICES

INVESTMENT MARKET

LOWER TRANSACTION VOLUMES

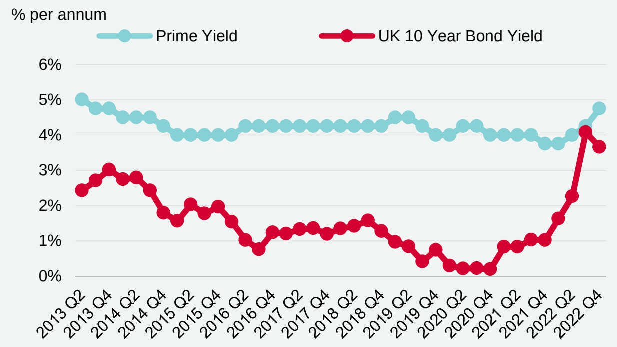
- The rise in intertest rates has been felt most in the City & Southbank where the use of debt is more prevalent. Investment volumes in 2022 Q4 were 74% lower compared with the previous quarter at £556.6m - the lowest quarterly total since 2020 Q3.

- This resulted in volumes reaching £7.9bn in 2022 – an annual change of -11%. Investors from APAC dominated market activity last year with just over 45% of transactions followed by European (17%) and UK investors (14%).

- The largest transaction last quarter was 50 Finsbury Square which was purchased by Wirtgen Invest Holding GmbH for £218.3m and reflecting a yield of 3.87%. We expect turnover in 2023 to be characterised by smaller lot sizes and much greater levels of investment from private investors who are less reliant on debt for acquisitions.

- Prime yields have risen by a further 50bps to 4.75%. In the last 12 months, prime yields in the City & Southbank have risen by 100bps and we expect recent falls in longer-term financing rates to lead to pricing stability in the near-term.

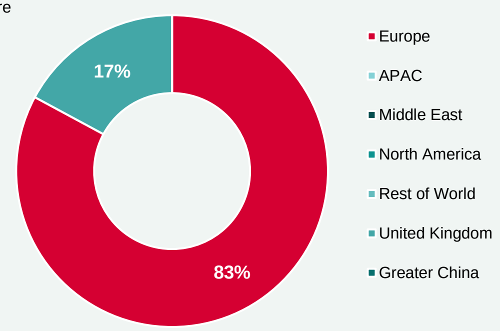
City & Southbank - Prime Yields and 10 Year Government Bond Yields



Source: Knight Frank Research

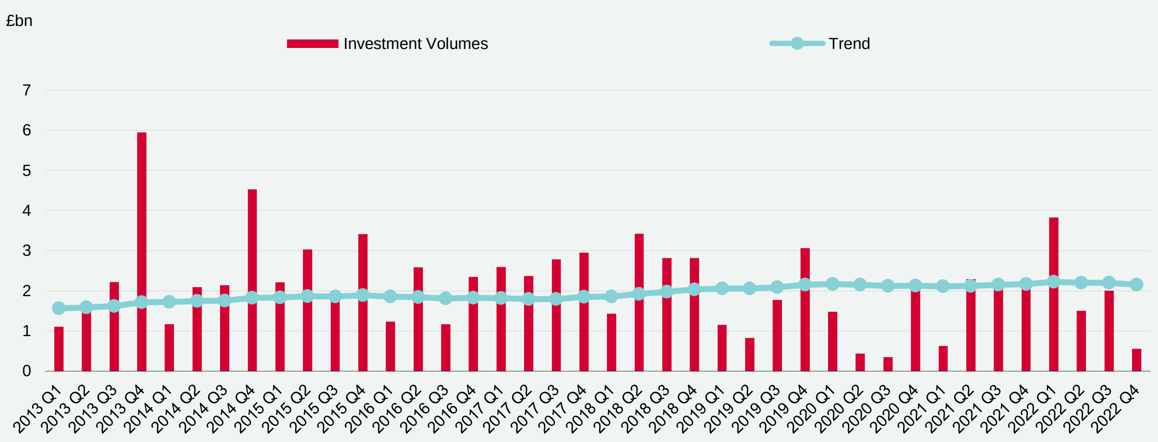
City & Southbank – Investment Volumes by Nationality

Q4 2022, % share



Source: Knight Frank Research

City & Southbank - Investment Volumes Relative to Trend



Source: Knight Frank Research

CITY OFFICES

OCCUPATIONAL MARKET

TAKE-UP DRIVEN TO NEW AND REFURB

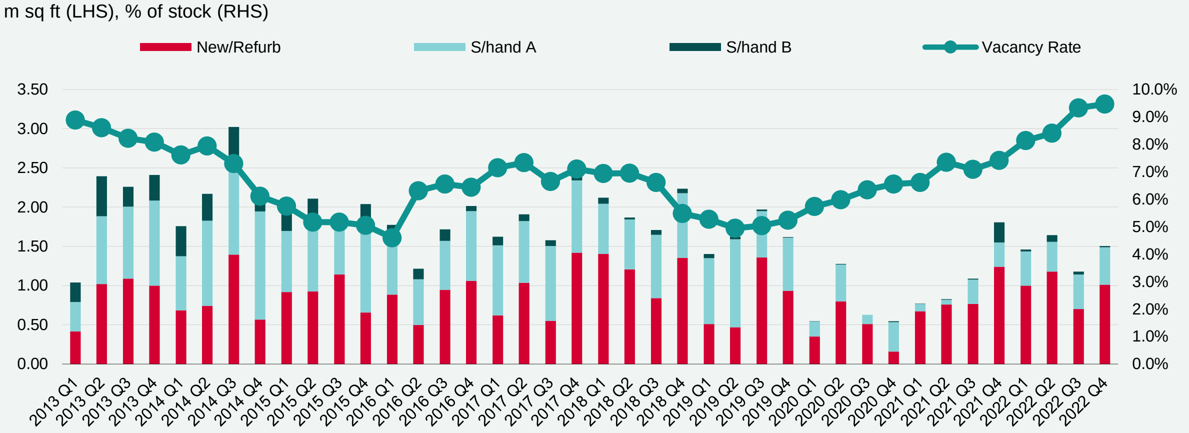
- Take-up in City & Southbank was 1.50m sq ft, up 27.8% on the quarter. The year as a whole saw 5.78m sq ft of lettings transactions – a rise of 30% compared with the previous year and 14.2% below the long-term annual trend.
- Almost 41% of transactions in 2022 were by professional services and in particular the legal sector where take-up was the highest on record. The second largest occupier group was financial services accounting for just over 18% and technology, media and telecom which transacted on 13% of all lettings. Take-up from the latter was almost 50% below the long-term annual trend.
- The market continues to see strong levels of demand for the best quality floorspace with take-up for new and refurbished buildings accounting for 67.2% of all lettings.
- Prime Rents in the City Core are unchanged at £75.00 per sq ft. Whilst prime rents have risen in Clerkenwell/Farringdon and Vauxhall/Battersea with the former rising to £85.00 and the latter to £60.00 per sq ft.

AVAILABILITY CONTINUES TO RISE

- Availability has risen for five successive quarters to 12.72m sq ft in 2022 Q4, and a vacancy rate of 9.5%, 2.7% above the long-term average.
- This increase in availability is in part due to a 376,893 sq ft rise in tenant release space and also due to an expected 1.36m sq ft of development completions in the first six months of 2023.
- This quarter saw 0.51m sq ft of completions across five schemes including The Rowe, 60 Whitechapel High St and Arbor, Bankside Yards.
- There is a further 6.46m sq ft of speculative space under construction which completes by 2025. In comparison to average levels of take-up for new and refurbished space, this suggests a shortfall of over 6m sq ft of best-in-class space.

City & Southbank - Take-up by Quality and Vacancy Rate

m sq ft (LHS), % of stock (RHS)



Source: Knight Frank Research

WEST END OFFICES

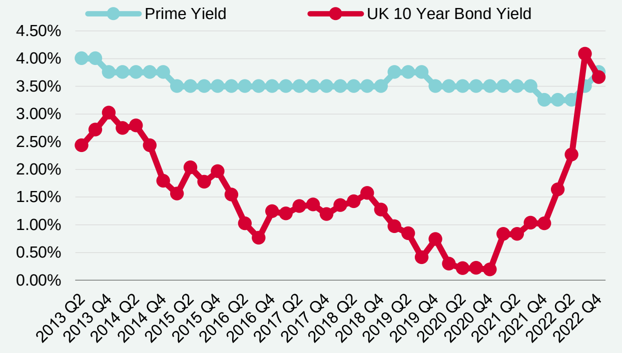
INVESTMENT MARKET

INVESTMENT VOLUMES SOFTEN

- Investment volumes softened during 2022 Q4 with transactions of £0.9bn – a fall of 31% over the quarter and 37.6% below the long-term quarterly trend of £1.44bn.
- In 2022, there was almost £5.9bn of transactions which was just over 20% higher than in 2021 and slightly above the long-term annual trend.
- Almost half of all transactions last year were from private property companies/investors who are less sensitive to rising interest rates.
- We expect this trend to continue in 2023 as institutional investors await greater clarity for the path of interest rates.
- Prime yields in the West End have increased by 25bps to 3.75%.
- All-in debt costs remain greater than prime yields, implying investors will look to rental growth to drive performance.

West End – Prime Yields and 10-year Government Bond Yields

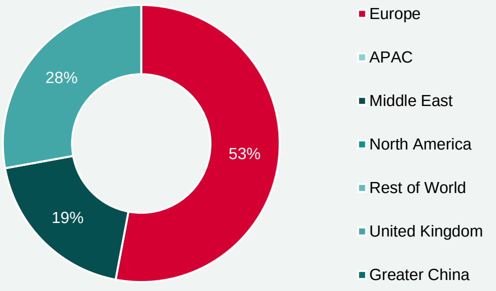
% per annum



Source: Knight Frank Research

West End– Investment Volumes by Nationality

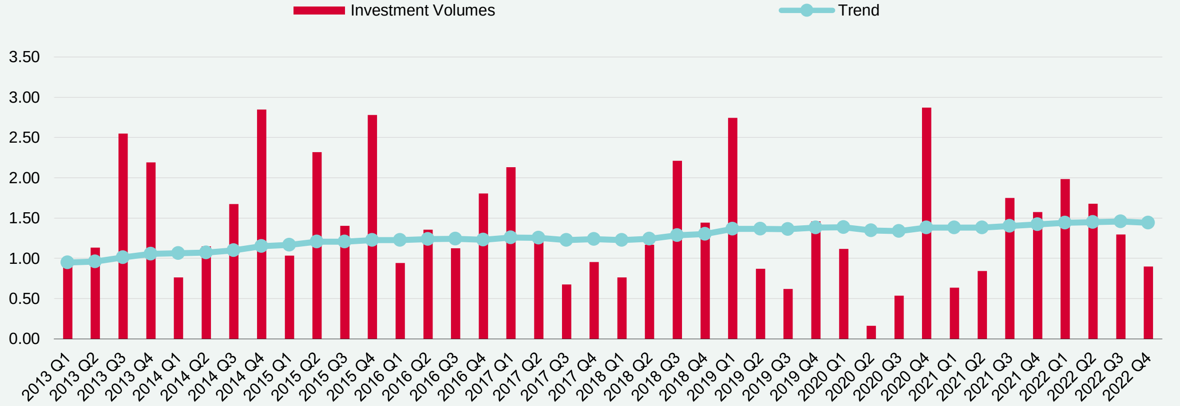
Q4 2022, % share



Source: Knight Frank Research

West End - Investment Volumes Relative to Trend

£bn



Source: Knight Frank Research

WEST END OFFICES

OCCUPATIONAL MARKET

ABOVE TREND TAKE-UP

- Take-up rose by 11.9% in 2022 Q4 with letting activity of 1.31m sq ft - a third consecutive quarter above the long-term quarterly trend.
- In 2022, there has been 4.98m sq ft of take-up which is 27% higher than in 2021 and 8.0% above the annual long-term trend.
- New and refurbished space accounted for 50.0% of take-up with a growing focus on luxury boutique space such as 30 Golden Square in Soho and 30 St James' Square, where above average rents were achieved.
- Financial services accounted for just over one third of all transactions in 2022 and were followed by professional services which represented almost 20% of all lettings. Both occupier groups acquired space considerably above their long-term trend levels.
- With a shortage of prime space in the West End, prime rents have risen in Fitzrovia (£92.50 per sq ft), Marylebone (£97.00 per sq ft), Soho (£95.00 per sq ft) and Victoria (£82.50 per sq ft). Rent free periods remain unchanged at c.24 months for a 10-year lease.

PRIME AVAILABILITY FALLING

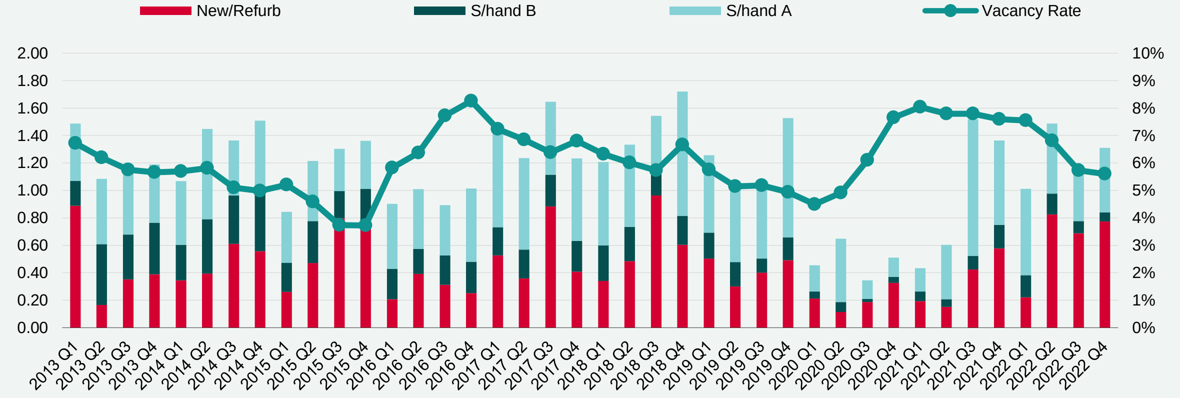
- Supply in the West End remains largely unchanged with a minor drop on the quarter of 1.5% leaving availability at 5.13m sq ft and a vacancy rate of 5.6%.
- The availability of new and refurbished buildings is especially acute representing only 30% of all available buildings in the West End.

FUTURE SUPPLY REMAINS MODEST

- During the quarter, 0.67m sq ft of speculative space completed across six buildings. Notable developments include Paddington Square at 31 London Street which is fully let and Gateway Central in White City.
- There is 5.31m sq ft under construction across the West End completing by 2026, of which 1.51m sq ft is pre-let.
- Our analysis of net prime availability suggests a shortfall of 4m sq ft by 2026 compared with average levels of take-up of new and refurbished buildings.

West End - Take-up by Quality and Vacancy Rate

m sq ft (LHS), % of stock (RHS)



Source: Knight Frank Research

DOCKLAND OFFICES

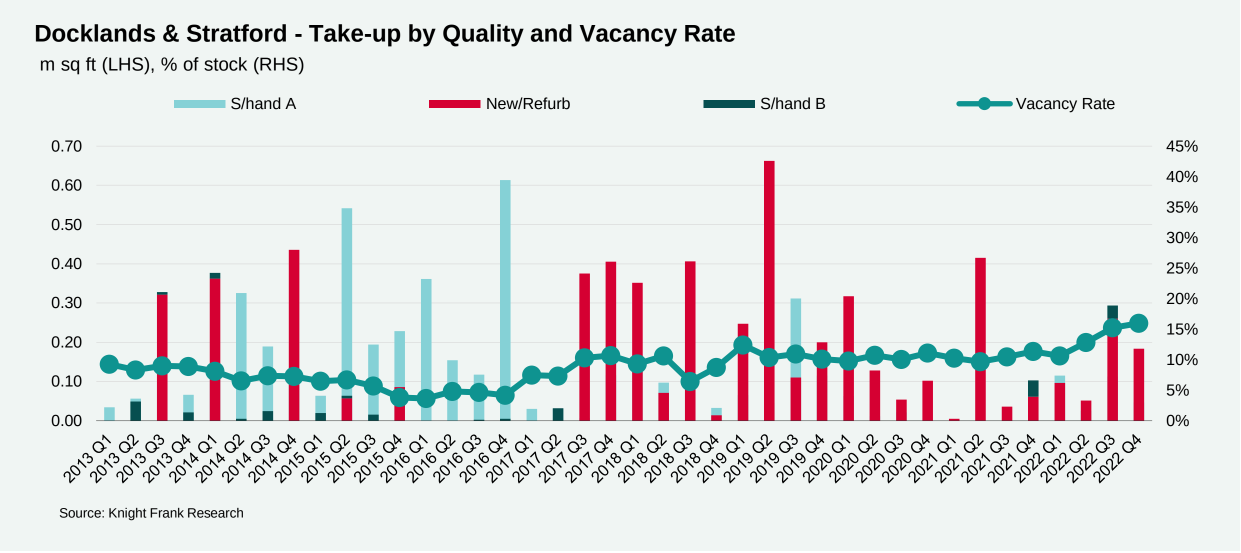
OCCUPATIONAL MARKET

LOWER LEVELS OF TAKE-UP

- Take-up in Docklands & Stratford fell by 45.3% to 0.16m sq ft in 2022 Q4 compared with the previous quarter. For the full year, letting transactions were 0.7m sq ft, a significant rise of almost 100% compared with 2021 and 26% below the long-term annual trend.
- Take-up of new and refurbished space rose by 15% to 0.4m sq ft in 2022 and representing 54% of all lettings.
- Professional occupiers accounted for the majority of take-up during the quarter with 0.08m sq ft, considerably above the long-term average of 0.02m sq ft.
- The largest deal of the quarter was Kadans Science Partner who leased 38,488 sq ft at 20 Water Street, achieving above market rent of £59.90 per sq ft.
- The second largest deal was Liverpool Media Academy leasing 35,000 sq ft at Here East at a prime market rent. This letting by LMA is an expansion on their existing campus style location, nearly doubling their footprint at the site.

AVAILABILITY RISES

- For the third quarter in a row the vacancy rate has risen to 16.0% for Q4, an increase of 4.6% year on year. Availability has risen to 3.81m sq ft, an increase of 41.8% on the year and significantly above the long-term trend, 87.4%.
- This is in part due to the anticipated completion of YY London, 30 South Colonnade in 2023 Q1; delivering 440,000 sq ft of new office space. YY London and the Turing Building are currently all that is under construction. The latter delivering 343,000 sq ft in 2024.



SOUTH EAST OFFICES

INVESTMENT MARKET

WIDER TURMOIL DOES DETER INVESTMENT

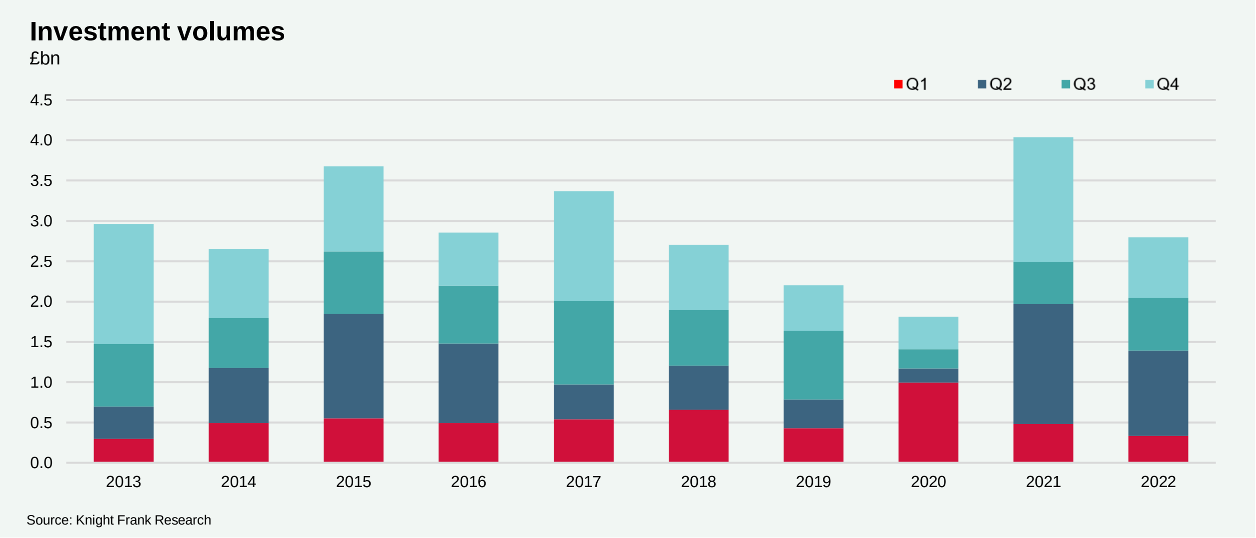
- While investors were understandably hesitant, the final quarter recorded transactions worth £748 million , up 15% when compared to Q3. This meant that turnover for the year increased to £2.8 billion. Although this is 31% less than the previous year, activity in 2021 stood out as a record year for South East office investment. When compared to the 10-year annual average, investment volumes in 2022 were just 5% behind.

INTERNATIONAL BUYERS TARGET HIGH VALUE ASSETS

- During 2022, UK buyers accounted for two thirds of the transactions by number. However, overseas buyers accounted for 53% of investment volumes and were responsible for four of the six deals to complete with a price tag of £100m or more.

SHARP SHIFT IN PRICING IN Q4

- Turbulence within domestic and global capital markets led to rapid market repricing in Q4 2022. Prime office yields for the South East offices moved out to 6% in response to the sharp rise in swap rates and the erosion of the gap between UK gilts and office yields.
- Whilst price discovery is now a characteristic of the market, the shift in pricing is attracting new entrants. Opportunistic buyers are active and as stability continues, we anticipate that core and core-plus investors will return in greater numbers. This growth in interest should lead to an increase in liquidity in the coming months and support the possibility of yield compression as the year progresses.



SOUTH EAST OFFICES

OCCUPATIONAL MARKET

OCCUPIER ACTIVITY PROVES RESILIENT DESPITE SIGNIFICANT HEADWINDS

- The final quarter of 2022 registered a late flurry of occupier activity. During the quarter, 809,121 sq ft was leased, a total that represents a quarterly uplift of 37%. Consequently, take-up across the South East for the year increased to 2.75m sq ft, 6% ahead of total take-up recorded in 2021 but 12% short of the 10-year annual average. The high deal count was a factor in supporting the year-on-year rise. In 2022, 244 occupier deals were completed. This is the highest total since 2018.

TURBULENT TIMES FOR TMT, BUT STILL GROWING IN THE SOUTH EAST

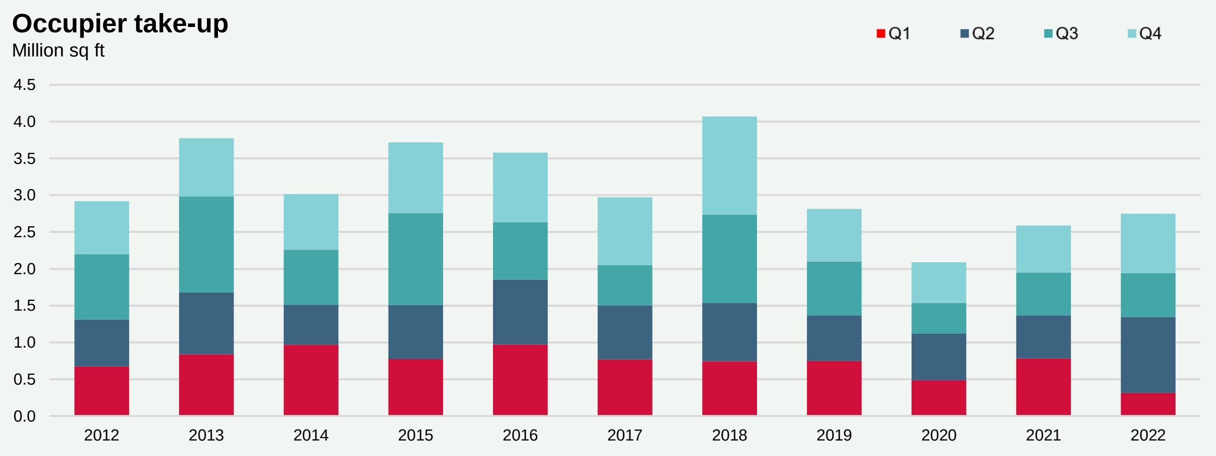
- The strength of the TMT sector proved decisive to the fortunes of the South East office market in 2022. While some of the global technology firms are reducing headcount, the TMT sector again registered footprint growth across office markets in the South East . TMT occupiers accounted for 23% of office take-up during the year, and 26% of deals completed during the year. The M4 corridor was again the principal location of interest, but at 27, the M3 submarket recorded the highest number of TMT deals of the past 20 years.

LIFE SCIENCES DRIVES ACTIVITY IN OXFORD AND CAMBRIDGE

- Life sciences dominated activity again in Oxford and Cambridge, with 470,000 sq ft leased during the year despite a backdrop of reducing vacancy. The market imbalance in these two cities is expected to stimulate speculative development inclusive of lab ready stock. Furthermore, asset sales in Cambridge and Oxford accounted for 37% of investment volumes in the South East. This equated to just over £1 billion, as investors continued to allocate capital towards workspaces targeting life sciences and innovation led companies.

GRADE B BOLSTERS VACANCY RATES

- There was further evidence of the flight to better quality offices being underway, with take up for grade A offices offering strong sustainability credentials and amenity offerings accounting for 87% of all space taken. While overall vacancy for the South East finished the year just above the long-term average at 7.6%, availability for new or recently refurbished offices remained unchanged over 2022. Meanwhile, the representation of grade B, or secondary, office stock to overall vacancy is at its highest level since 2014.



Source: Knight Frank Research

UK CITIES OFFICES

INVESTMENT MARKET

REFINANCING TO DRIVE INVESTMENT BOUNCE IN 2023?

- Investors were understandably hesitant in 2022, with the final quarter particularly sluggish due to political turmoil. Investment volumes for the year finalised at £1.74bn, 20% less than in 2021. Lack of high value stock sales was a factor, with sales above £50m the lowest in number since 2013.
- In 2023, more stabilised investment conditions and the recent price market revaluation, could serve to increase deal rate in 2023. Overseas buyers are forecast to be particularly active in UK markets, with the favourable rate of sterling creating a secondary discount for buyers.

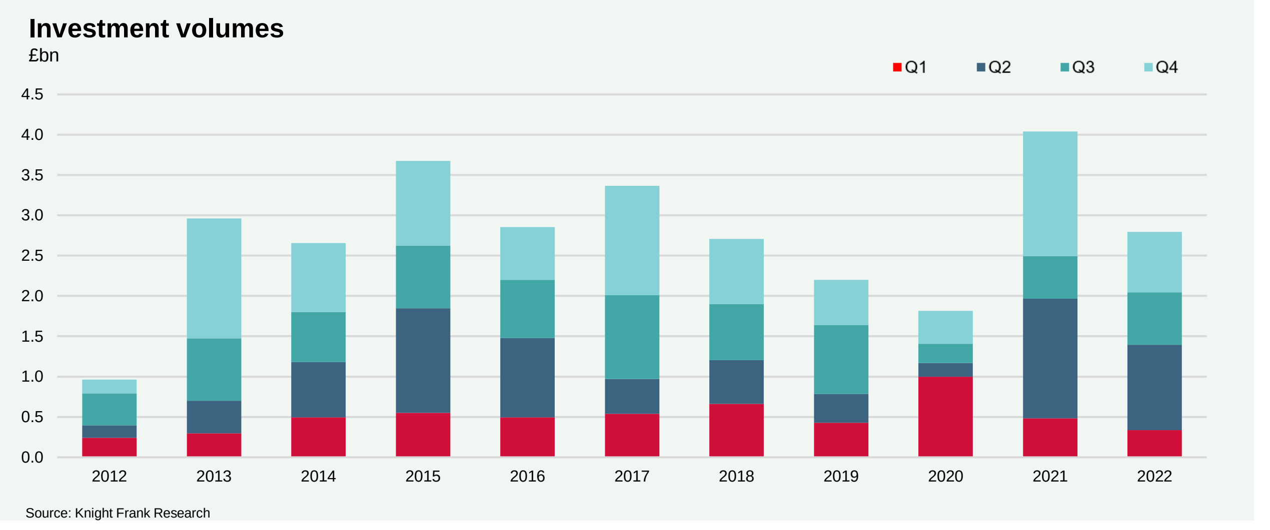
PRICING TO FIND ITS LEVEL QUICKLY

- Turbulence within domestic and global capital markets led to rapid market repricing in 2022. Prime office yields moved out by 50-100bps across the main regional markets in response to the sharp rise in swap rates and the erosion of the gap between UK gilts and office yields. With gilts expected to compress to 2.75% in 2023, the cost of borrowing will decrease and the risk premium will rise, relieving pressure on property valuations.

- Whilst price discovery proved challenging at the end of 2022 and led to a stalemate, the buyer pool has grown as we enter 2023. Opportunistic buyers are active and as stability continues, core and core-plus investors are returning in greater number. This growth in interest should lead to an increase in liquidity in the coming months and support the possibility of yield compression as the year progresses.

REGIONAL HOTPOTS OF OPPORTUNITY

- In times of economic uncertainty, the polarisation between prime and secondary yields is likely to widen as investors seek assets with less risk involved. Coupled with the depreciation of sterling, investment in the UK market provides an opportunity for overseas investors to seek strong returns on their investments and target those secondary assets located in the regional cities.



Source: Knight Frank Research

UK CITIES OFFICES

OCCUPATIONAL MARKET

NUMBERS POINT TO MARKET RECOVERY

- Although the collective take-up for the UK Cities fell short of the long-term average, the marketplace felt very busy in 2022. The number of deals completed confirms this observation, with over 1,100 occupier transactions registered in 2022. Notably, this number is equivalent to the marketplace of 2019 and is 9% higher than the 5-year average.
- A structural rethink around future space needs may be influencing the quantum of space, but occupiers are certainly re-engaging with the market and positioning offices as central to their business.

FIRMS ARE MORE DISCERNING ON SPACE QUALITY

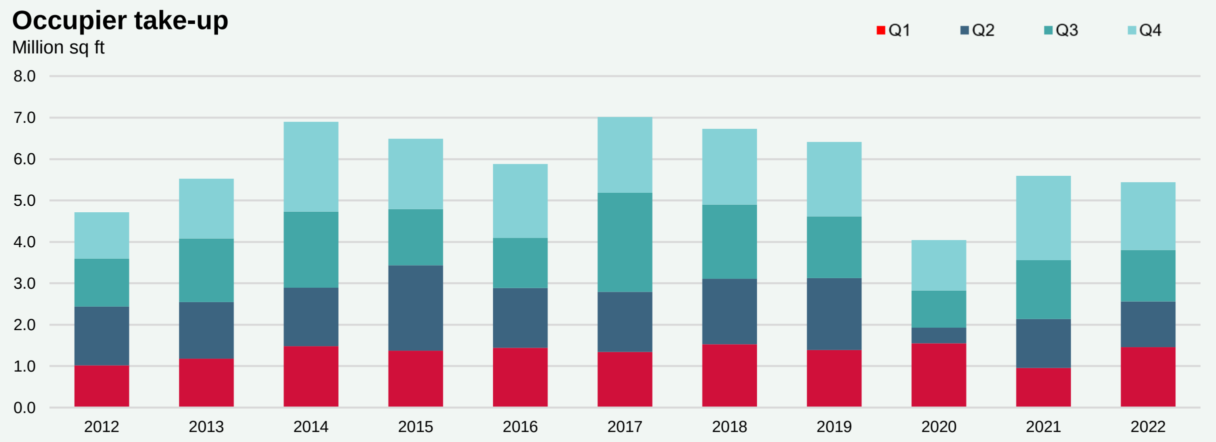
- A defining trend in 2022 was the pursuit of 'Best-in-class'. While the percentages differ by city, over 50% of collective take-up during the year was of new or grade A space. In some cities, the percentage was above 70% in 2022.
- The main reasons for the sharpening focus are a heightened pursuit of ESG, brand amplification in an increasingly competitive business landscape, and talent attraction and retention. The latter is a particular driver of space choices, with the latest figures showing that unemployment in the UK is at an almost all-time low.

HEADWINDS HAVEN'T DETERRED RENTAL GROWTH

- Despite headwinds created by Covid and more latterly political turmoil, the drive for 'best' has meant prime rents have risen.
- In 2022, 5 of 10 regional cities recorded growth of prime rent. When considered further back to the onset of Covid in March 2020, 8 of 10 regional markets have registered an uplift in prime rent.

SUPPLY SQUEEZE AHEAD?

- Although having risen during the past year, supply could be a restraining factor to occupier activity in 2023. The weighted average vacancy rate for the 10 UK regional cities was 9.8% at year-end, compared to 8.9% at the end of 2021. In some cities, vacancy is circa 5%.
- The rise has principally been driven by the release of poorer quality space, with Grade A or new space representing only one third of overall availability at year end. The development pipeline will offer little respite. Collectively, 3.0m sq ft of speculative space was under construction. While the pipeline will be delivered over the next three years, this total is equivalent to just 14 months of Grade A take-up.



Source: Knight Frank Research

Industrial & Distribution

INVESTMENT AND OCCUPATIONAL MARKETS

Contact:

Claire Williams

INDUSTRIAL & DISTRIBUTION

INVESTMENT MARKET

MARKET OVERVIEW

- Annual capital growth was negative in the year to December, with -18.26% recorded, down from -8.32% in November. This is the lowest figure since September 2009. Annual capital growth reached a low of -27.9% following the GFC market downturn in 2009.
- Annual total returns were also negative in December. They stood at –15.21% in December, down from -4.96% in November, and a peak of 43.0% in April 2022.

INVESTMENT

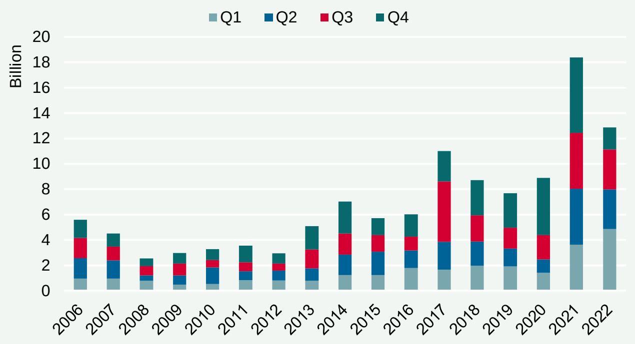
- Q4 2022 investment totalled £1.8 billion, and takes the annual investment for 2022 to £12.9 billion. This is the second highest annual total on record.
- As expected investment activity in Q4 was impacted by the repricing of yields and rising debt costs. The disparity between buyer and seller pricing expectations led to a stalemate in deal activity. Though the denominator effect, redemptions and higher refinancing costs will have motivated some sellers, many opted instead to withdraw assets from the market.
- The largest investment deal in Q4 was a portfolio of Morrisons Distribution Centres. ICG purchased the seven assets from Morrisons in a sale and leaseback transaction, for £220 million.

YIELD TONE

- Prime Distribution / Warehousing with 15-year income on open market rent reviews were at 5.25%-5.50% at the end of Q4 2022, compared with 4.00-4.25% at the end of Q3 2022.
- Repricing has been rapid. Prime yields have moved out 175-200bps through the second half of 2022. While some further repricing is anticipated in 2023, further movements are expected to be modest.
- For SE Estates (excl. London and Heathrow), yields were at 4.00% at end-Q3 2022, though these too have softened and are now 5.00-5.50% (December 2022).

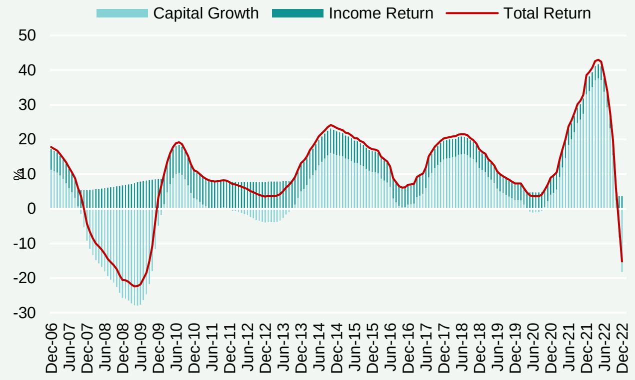
Investment volumes

£bn



Source: Knight Frank Research, RCA

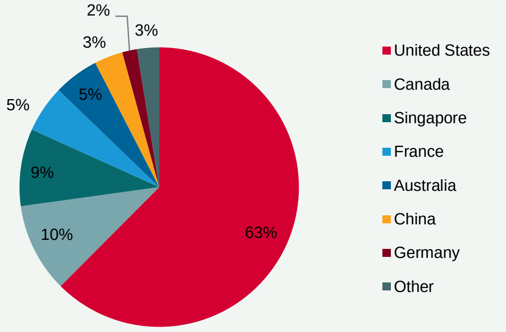
Total return



Source: Knight Frank Research, MSCI

Origin of capital

YTD 2022, %



Source: Knight Frank Research, RCA

INDUSTRIAL & DISTRIBUTION

OCCUPATIONAL MARKET

MARKET OVERVIEW

- Average rents for UK Industrial continue to grow, though the rate of growth is decelerating, with 10.3% growth over the past year, down from 11.8% in the year to November 2022 (Source: MSCI). Month-on-month growth of 0.54% was recorded in December, down slightly from 0.58% in November.
- The fundamentals of the sector remain strong, with low vacancy rates, good (albeit moderating) rental growth prospects, and occupier demand from manufacturers and 3PLs is helping to plug the gap left by the online retailers. While the monthly figures show online retail sales to be down, the expectations remain for further growth in the long term.
- However, there are headwinds for the occupational market. In April, occupiers will face higher energy bills along with higher business rates. Business rates are set to rise an average of 34% for the sector. The current Energy Bill Relief Scheme comes to an end in March, and while the Government has announced a new Energy Bill Discount Scheme, it offers a lower level of protection, with the price cap being replaced with maximum discounts. Businesses must therefore think proactively on how to manage energy consumption and costs. Those operating from less energy efficient facilities may be less able to mitigate cost rises.

TAKE UP

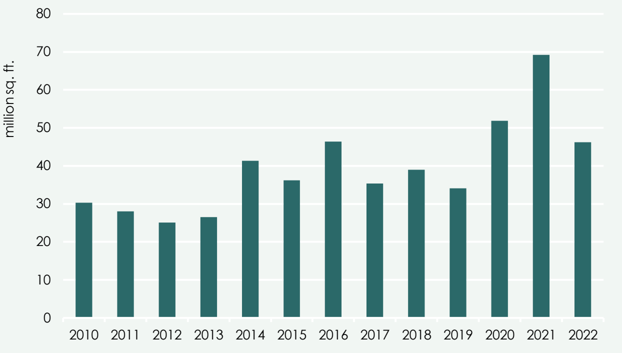
- Finalised take up figures for Q4 2022 show a total of 8.1 million sq ft (units over 50,000 sq ft), bringing the total for 2022 to 46.2 million sq ft. Though the annual total is lower than the record 70 million sq ft taken up in 2021, it is 6% above the five-year average (2017-2021).

SUPPLY

- Just 3.3% of space was vacant at the end of Q4 2022 (compared with a preliminary estimate of 3.7%). This is up slightly from 3.1% in Q3 2022 and on a par with that at the end of 2021.
- Availability of secondhand space is up Q-on-Q but remains below the level available at the end of 2021, while the availability of new space has increased throughout the course of 2022. There is now just over 9 million sq ft of new space available, though this is below levels recorded at the end of 2020 – early 2021.

Take up

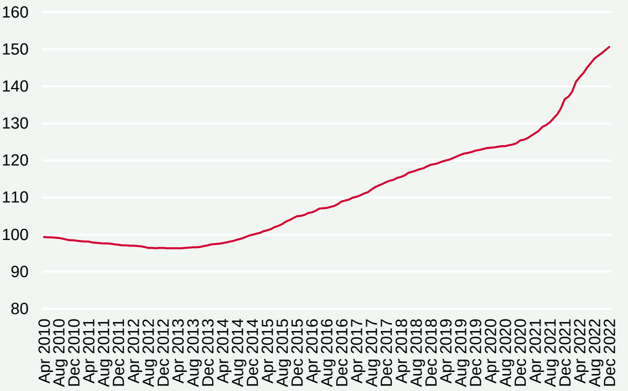
Units over 50k sq. ft.



Source: Knight Frank Research

Average market rental growth

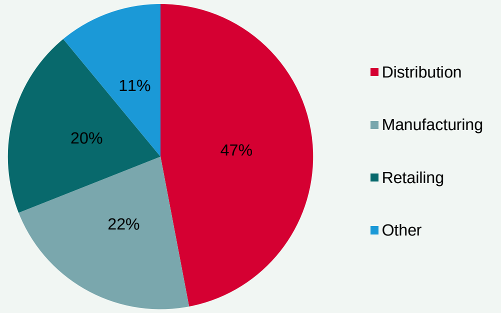
Jan 2010 = 100



Source: Knight Frank Research, MSCI

Take up by occupier type

Units over 50k sq. ft., four quarters to Q4 2022



Source: Knight Frank Research

Retail & Leisure

RETAIL, HIGH STREET, SHOPPING CENTRES, OUT OF TOWN, LEISURE AND FOODSTORES

Contact:

Emma Barnstable

RETAIL

MARKET OVERVIEW

CONSUMERS

- Sentiment did improve across Q4 2022 as households looked forward to another lockdown-free Christmas. Confidence does remain deeply pessimistic (-45 pts), but January showed minor +2pt uptick in personal finance sentiment (-27 pts).
- Retail sales data showed 2022 to be a record year. Sales values grew +4.8%, the highest level of growth since 2004 (excluding the artificial post-Covid spike). Food sales grew +3.1% (above 10-year average). Non-Food saw double digit growth for a second consecutive year (+10.2%).
- Sales performance in December was equally impressive. Sales grew +3.3%, with fashion, cosmetics, footwear, and furniture enjoying value and volume growth – challenging the assumption of consumer cutbacks on 'discretionary' items.

OCCUPIERS

- Occupier markets continue to hold steady despite the challenging backdrop. Pressures will remain in H1 2023 but are quantifiably more manageable & predictable than lockdowns witnessed during Covid-19.
- Distress to date has been concentrated amongst the online pureplayers (Snug, Made.com, Eve Sleep, MissGuided), and retailers with a previous CVA history (Paperchase, M&Co).
- The Knight Frank Retailer Watchlist identifies just 58 of the Top 300 retailers are at risk of failure (19%). Of these, 22 are online-only operators.
- Vacancy rates continue to move in a positive direction and have improved for a fifth consecutive quarter. Rates stood at 13.8% in Q4.

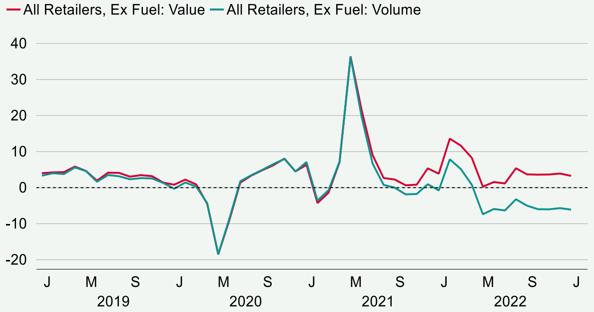
INVESTMENT

- Q4 retail volumes totalled £1,184m, marking a slowdown vs. Q3 levels as sentiment remained gloomy across CRE markets. Retail volumes were substantially lower YoY (-63%), and versus the 5-year average (-45%).
- Capital values fell into negative territory in November after 13 consecutive months of growth. But rents moved in the opposite direction, growing for the first time since May 2018 (+0.2%).

Consumer Confidence
Confidence over the next 12 months, net balance

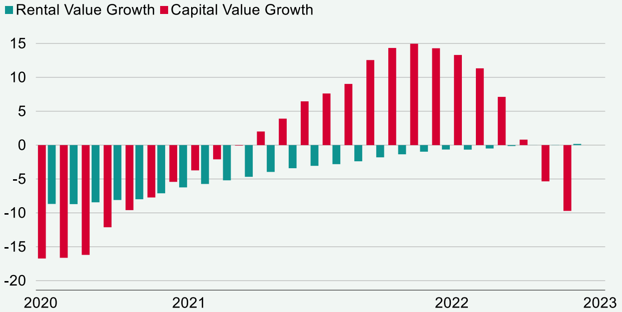
Source: Gfk, Macrobond

ONS Retail Sales
Monthly YoY change, %



Source: ONS, Macrobond

All Retail - Rental / Capital Value Growth
% change



Source: MSCI, Macrobond

HIGH STREET RETAIL

MARKET OVERVIEW

CONSUMERS

- Across the 12 months of 2022, footfall improved substantially (+51.2%) versus 2021 levels. Versus 2019 levels however, footfall remains -16.9% below pre-pandemic levels.
- Footfall is not anticipated to return to pre-lockdown levels – but this is part of a longer-term decline in footfall trends. Footfall has declined by an average -1.3% each year since 2009. Even in the absence of Covid, footfall across UK destinations was expected to be c.-4% lower than 2009 levels.

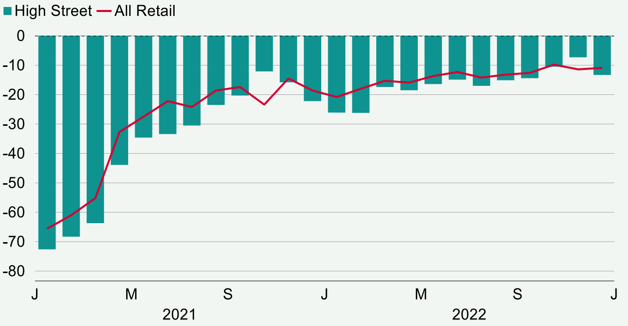
OCCUPIERS

- High street vacancy improved 10 bps to 13.8% in Q4. Vacancy rates are in sync with the All Retail (13.8%) rate, ahead of Shopping Centres (18.2%), but behind Retail Parks (9.0%).
- Paperchase became the first high street casualty of 2023 with the business collapsing into administration. Tesco have acquired the brand and IP with its 100+ store portfolio set to close. Paperchase's chequered history of private equity ownership is the likely culprit for its failure, rather than weak consumer demand. It is unlikely to herald a wave of other retailer failures.
- Several operators have unveiled ambitious expansion plans in January off the back of strong trading at Christmas. JD Sports is aiming for 250-300 new stores globally per annum; Crew Clothing 40 new stores in market & coastal towns by 2025; and Hotel Chocolat 50 new stores in 3-5 years.

INVESTMENT

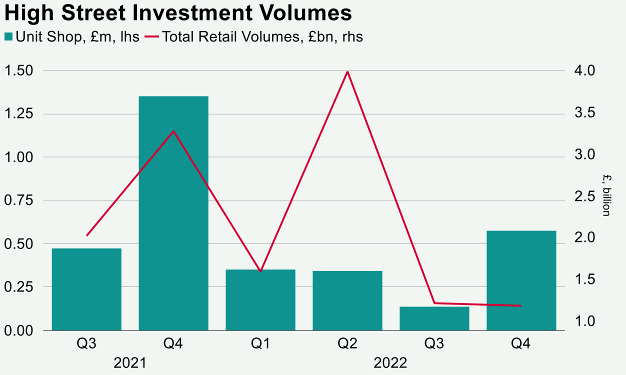
- Prime and Good Secondary High street yields both saw outward movement of 50bps across Q4 to 6.75% and 7.00% respectively.
- The appeal of higher yielding, lower management assets saw high street deals make up the majority (49%; £574.9m) of total Q4 Retail investment volumes, approximately +10% above the 5 year-average. The sale of Fenwick's Bond Street department store to Lazari Investments was the bulkiest deal, worth £430m. The site is set to be converted into a mixed-use development.

High Street Footfall
Monthly YoY Change %



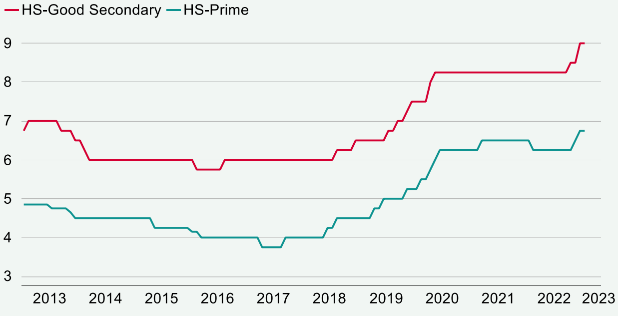
Source: BRC, Springboard, Macrobond
*vs 2019 levels
**vs. 2021 levels from December 2022 onwards

High Street Investment Volumes



Source: Property Data, Macrobond

High Street Yields
%



Source: Knight Frank, Macrobond

SHOPPING CENTRES

MARKET OVERVIEW

CONSUMERS

- Non-food retail sales in 2022 grew +10.2%: the second consecutive year of double-digit growth, with volumes positive +2.5% despite inflation pressures. Some of the strongest performing categories saw substantial value and volume growth: footwear (+32.4%/+24.7%), clothing (+24.1%/+15.3%), and cosmetics (+24.6/+17.2%), with consumers spending and buying more in these categories.
- Footfall across UK shopping centres witnessed the biggest recovery of all the retail sub-classes. Footfall activity improved +52% in 2022 versus 2021 levels.
- However footfall registered -18.8% below 2019 (pre-pandemic) levels, and continues to lag the All Retail rate (-14.2%).

OCCUPIERS

- Many Shopping Centre operators reported strong Christmas trading, and whilst bracing for the year ahead, remain quietly optimistic. M&S reported 'outstanding' results in clothing & home; JD Sports upgraded profit guidance following +10% sales increases; & Boots achieved its seventh consecutive quarter of sales growth.
- Vacancy rates remain the highest of all the retail sub-classes but are continuing to travel in the right direction. Vacancy improved by 60bps in Q4 to 18.2%. This compares to 13.8% (High Streets), 9.0% (Retail Parks), and 13.8% (All Retail).

INVESTMENT

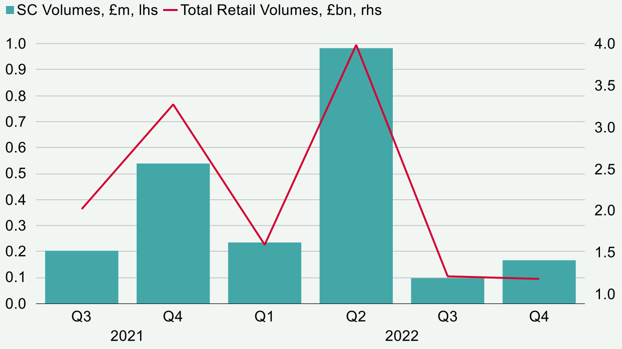
- Yields moved out 50bps in Q4 across Regional (8.00%); Sub-Regional (9.00%), Local (successful) (9.75%), and Neighbourhood (9.75%) schemes.
- Investment totalled £167m, ca. 14% of total retail volumes for the quarter. This marked a +70.4% increase vs. Q3 but was below the 5-year average.
- Some of the largest deals included £22.5m acquisition of Golden Square Shopping Centre (Warrington) by Adhan Group; £17.6m disposal of Princes Mead SC (Farnborough) by KFIM, and £10.9m sale of Bouverie Place (Folkestone) by Ellandi.

Shopping Centre Footfall
Monthly YoY change, %

Source: BRC, Springboard, Macrobond

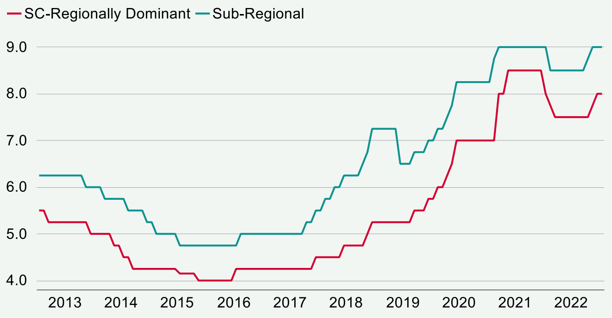
*vs 2019 levels
**vs. 2021 levels from December 2022 onwards

Shopping Centre Investment Volumes
SC Volumes, £m, lhs — Total Retail Volumes, £bn, rhs



Source: Property Data, Macrobond

Shopping Centre Yields
%



Source: Knight Frank, Macrobond

OUT OF TOWN

MARKET OVERVIEW

CONSUMERS

- 2022 annual retail sales performance amongst the OOT sub-sectors was very mixed but generally positive. Both Food (+3.1%) and Non-Food (+10.2%) categories registered value growth. Carpets were the star performer of all sub categories (+40.2%), with PCs & Telecomms (+24.3%), Furniture (+14.3%), Garden Centres (+7.4%), and Sports and Toys (+5.8%) also growing. In contrast White Goods (-7.6%) and DIY (-11.6%) saw softer demand.
- Footfall for the 12 months of 2022 registered an +11.7% improvement versus 2021 levels. Footfall remains -3.7% below pre-pandemic levels, but is significantly ahead of High Streets (-16.9%), Shopping Centres (-18.8%), and All Retail (-14.2%).
- The performance amongst retail warehousing remains robust in light of Springboard's forecasts that All Retail footfall will settle at between -5% and -10% below 2019 levels for the remainder of 2023.

OCCUPIERS

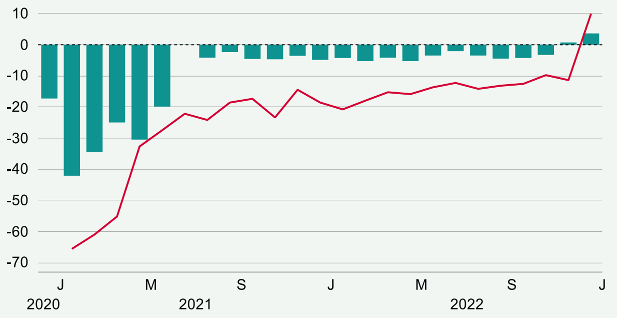
- Out Of Town vacancy rates remain the lowest of all the retail sub-sectors at 9.0% (Q4 2022). OOT rates continue to see the biggest improvements quarter-on-quarter, improving by 70 bps vs. Q3 levels (vs. Shopping Centres 60bps / High Streets 10bps).
- Several OOT operators have benefited from the fallout of online operators in recent months. Bensons for Beds LfL sales increased +7% following the acquisition of EveSleep, with stores witnessing higher transaction values. Meanwhile ScS saw order volumes grow +2.6% after acquiring Snug 'sofa-in-a-box' brand. The acquisitions will help increase operators market share, attracting new customers.

INVESTMENT

- Yields saw outward movement of 100bps to 6.00% across Q4, but are expected to correct by at least 50bps by the end of Q1 2023.
- Investment volumes totalled £382.2m, making up 32% of total retail volumes during the quarter.
- Realty Income, London Metric, and Melford Capital were the most active buyers, acquiring £225.6m worth of assets (ca. 59% total volumes).

Retail Warehouse Footfall

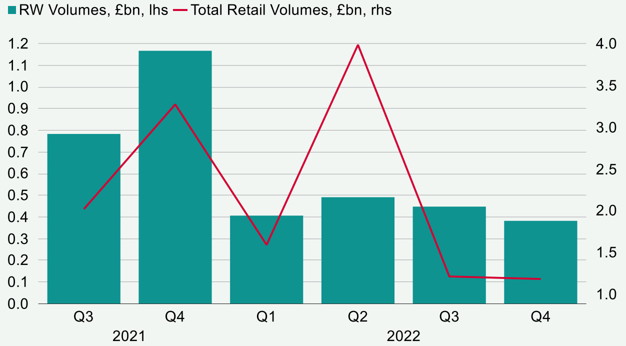
Monthly YoY change, %



Source: BRC, Springboard, Macrobond

*vs 2019 levels
**vs. 2021 levels from December 2022 onwards

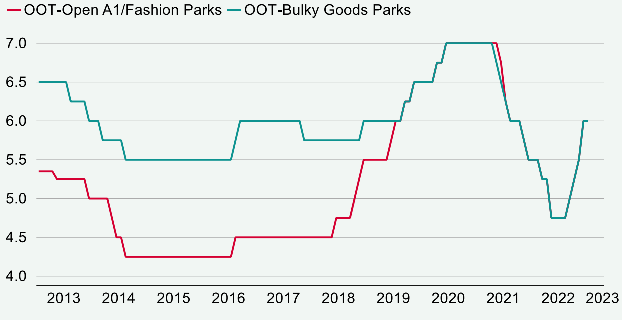
Retail Warehousing Investment Volumes



Source: Property Data, Macrobond

Retail Warehouse Yields

%



Source: Knight Frank, Macrobond

LEISURE

MARKET OVERVIEW

CONSUMERS

- Sentiment surveys suggesting ‘significant’ cutbacks on leisure pursuits outside of the home are still failing to materialise in the data. Consumers’ remain determined to have a good time amidst the gloomy backdrop, and enjoy everyday affordable luxuries.
- Overall, Hospitality & Leisure spend grew solidly at +16.9% in December. Bars, Pubs, and Clubs saw the biggest increase (+12.6%) in spend, the largest uplift since May 2022, and on top of +313% growth achieved in December 2021. Restaurants saw minor dip (-3.9%) against an incredibly tough YoY comparable in the year prior (+159.4%).

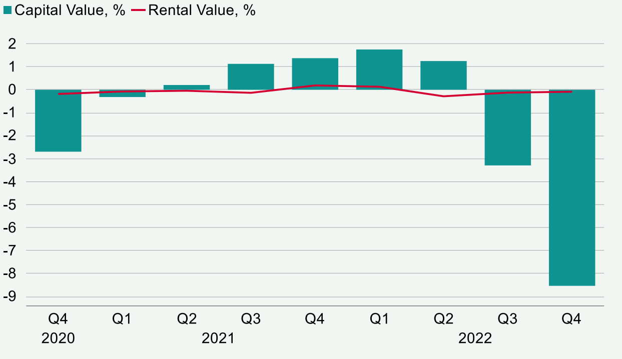
OCCUPIERS

- Whilst consumer demand remains solid, the ‘cost of doing business’ crisis is weighing heavy on operators. The number of hospitality outlets declined in Q4 by -1.6%, with Nightclubs (-6.0%), and Restaurants (-2.4%) most affected.
- Inflation in energy, food, and labour continues to disproportionately affect smaller operators with fewer financial reserves. Sites occupied by independent operators shrunk much faster (-2.1%) than managed groups (-0.6%), whose balance sheets can better weather the storm.

INVESTMENT

- Prime Leisure Park moved out 50bps across Q4 to 7.50%. Good Secondary Parks softened 100bps to 9.00%.
- Q4 investment levels registered £213.7m, marking a slowdown quarter on quarter (-68.0%) and year-on-year (-88.8%).
- Demand for leisure assets, particularly those anchored by cinemas cooled due to rising covenant concerns over large parts of the market, particularly in light of the ‘consumer squeeze’.
- The ongoing Chapter 11 process at the Cineworld parent company also sparked fears of the financial viability of other debt-laden cinema chains.
- Better located and well-led investments will continue to appeal, but their relative scarcity means deal volumes may remain supressed for the foreseeable, as occupational uncertainty persists.

Leisure - Rental / Capital Value Growth



Source: MSCI, Macrobond

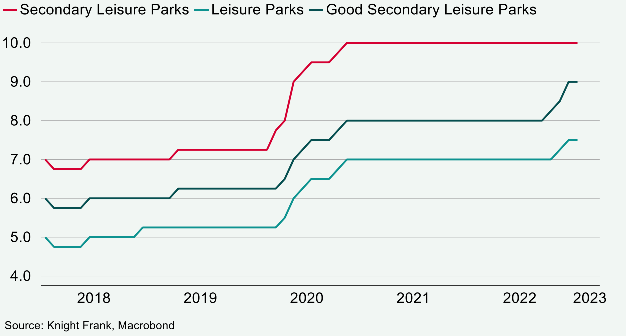
Leisure Investment Volumes

*includes all deals with leisure asset, excluding confidential deals

Source: Property Data, Macrobond

Leisure Yields

%



Source: Knight Frank, Macrobond

FOODSTORES

MARKET OVERVIEW

CONSUMERS

- Grocery sales in 2022 grew a respectable +3.1%, above the 10-year average (+2.4%). Despite inflation hitting record highs (16.7%), sales accelerated by +40bps between Q3 and Q4. The proportion of sales made online reduced to 9.0% (vs. 14.7% in January 2021), indicating a growing preference to shop in-store.
- Due to its essential nature, it's not easy for shoppers to cut back grocery spend and consumers will look for other ways to reduce costs. According to Kantar, households currently face a +£788 jump in their annual grocery bill if they continue to buy the same items.
- Consumers are increasingly 'trading down' the price pyramid from branded to own-label products, the latter witnessing growth of +9.3% in January.

OCCUPIERS

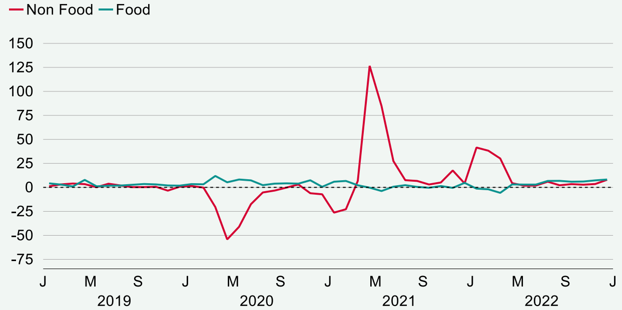
- Rivalry between operators remains intense: each trying to raise prices slower and lower than competitors to retain shoppers, alongside price matching and loyalty schemes.
- Kantar's latest customer data shows Aldi, Waitrose, and Lidl are providing customers the most satisfactory experience in terms of value for money.
- In terms of market share, Aldi became the fastest growing grocer for a fourth consecutive month in January with a 9.2% share (vs. 7.9% in 2020). Lidl (7.1%) and Iceland (2.5%) have also made substantial market share gains of +0.2% and +1.2 percentage points respectively since 2020.

INVESTMENT

- Yields moved outwards 75bps across Q4 to 5.50%.
- 8 deals transacted totalling £27.9m in Q4, marking an uncharacteristically low quarter for the sector, significantly below the 5-year average (£359.3m).
- Yields are expected to settle closer to 5.00% over the short-term (end of Q1 2023), with a swifter stabilisation expected due to the sectors' strong underlying occupational dynamics.

Food vs. Non-Food Retail Sales

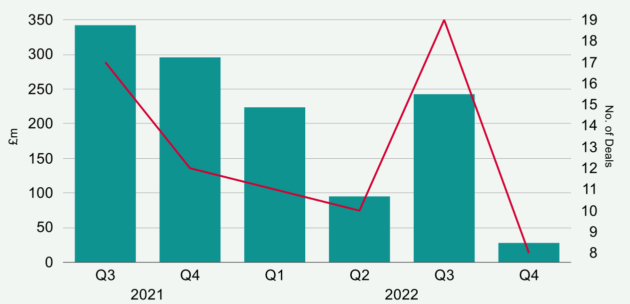
Monthly change YoY, %



Source: ONS, Macrobond

Foodstore Investment Volumes*

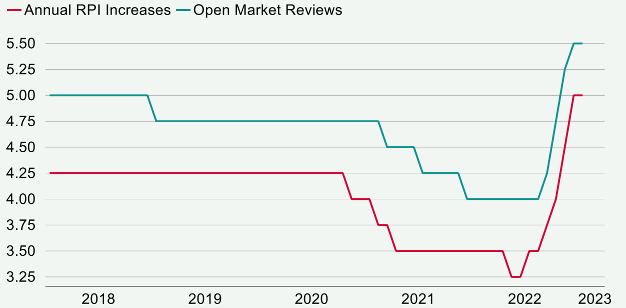
Last 6 quarters
*includes all deals with a foodstore, excluding confidential deals



Source: Property Data, Macrobond

Foodstore Yields

%



Source: Knight Frank, Macrobond

Specialist sectors

HEALTHCARE, HOTELS, LIFE SCIENCE & AUTOMOTIVE

Contact:

Healthcare - Ryan Richards

Life Sciences – Jennifer Townsend

Hotel – Philippa Goldstein

Automotive – Pav Panesar

HEALTHCARE

OPERATIONAL MARKET

TRADING

- Operator occupancies continue to recover from their pandemic lows, currently trending around the mid eighties with a number of operators reporting occupancies in the nineties.

- Inflationary pressures remain a point of concern due to the possible impact on operator trading, with our recent research highlighting that utilities account for c.34% of property costs.

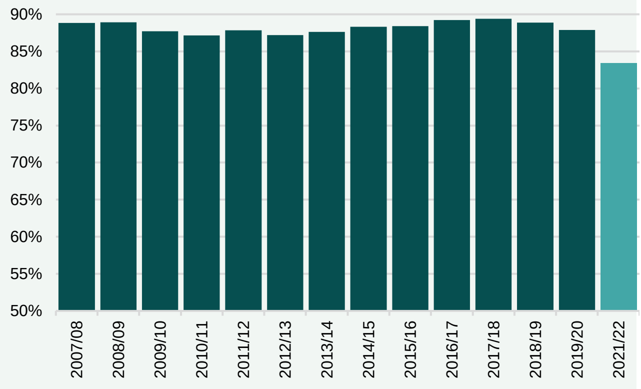
- All care fees are up 3.3% on the year with private pay homes achieving around 8.5% fee growth. The main question that emerges from this is: to what extent can fees rise to allow operators to offset inflationary pressures and the resulting cost of care provision?

SUPPLY

- 2022 saw circa 10,000 new beds granted via planning applications, which if completed would be a substantial add to the current supply (currently c.480k beds). The majority of this is set to come by way of refurb or extension to existing stock as opposed to new build.

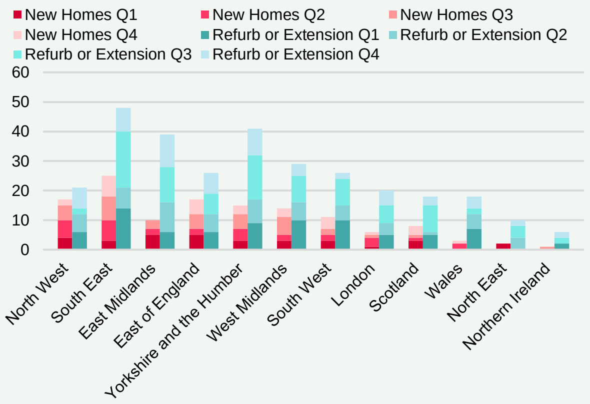
- It is also key to note the extent to which these new beds will be considered future proof as a vast percentage of pre-existing beds are no longer considered wholly fit for purpose due to the lack of features like full wet room inclusion. Therefore not only will completion / build out of these new beds be a welcome addition to pure availability, but also the quality of overall stock moving forward.

Occupancy



Financial year end is March
Source: Knight Frank Research

Schemes with Granted Planning



Data is as of March 2022
Source: Knight Frank Research

HEALTHCARE

INVESTMENT MARKET

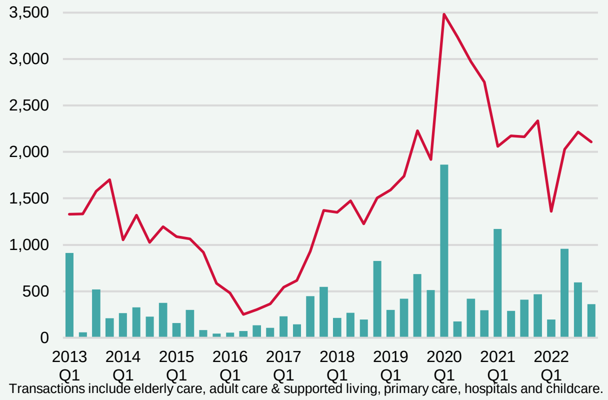
INVESTMENT

- Rolling four quarter volume to Q4 sits at approximately £2.1bn, down by roughly £200m for the same period last year. This, however, is an example of a more organic transaction volume than we have seen in recent years due to the absence of any outlier large portfolio transactions as in previous years with overseas REITs taking the Priory and BMI assets.
- Yields across the sector have pushed out circa 50bps on average.
- Whilst the sector is still active, investors are wisely gauging pricing level, with yields softening in line with stronger gilt rates.
- We are continuing to see interest in the sector due to its ESG credentials, whilst investors chase more than conventional returns.

FORWARD VIEW

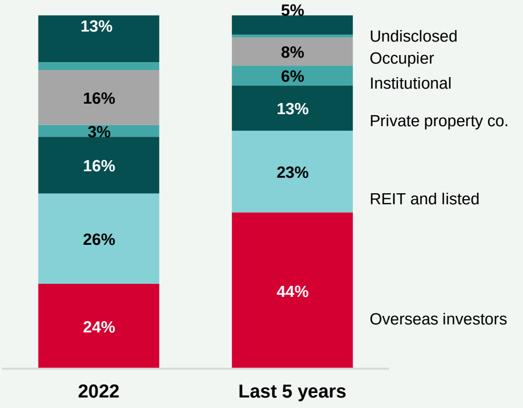
- A key concern to the sector is the extent to which operators will be able to absorb rising costs and pass them on to residents via fee increases. The sector has arguably already hit its ceiling in terms of annual percentage increases. Investors will continue to watch this during their underwriting as these changes filter into operator trading.
- Rising rates alongside a higher cost of debt could lead to a shift in the composition of capital, with private equity capital likely to feature more heavily than in previous years. Here private equity capital will need to deploy committed capital, meaning they may be more active on the debt side as opposed to just pure real estate plays. Additionally, other investors that have historically utilised gearing may become more cautious in their deployment.

Investment volumes



Transactions include elderly care, adult care & supported living, primary care, hospitals and childcare.
Source: Property Data

Buyer composition



Source: Property Data

HOTEL

TRADING PERFORMANCE

MARKET OVERVIEW

- London enjoyed a continued strong trading recovery in Q4-22, despite the impact of rail strikes on December's performance. London's Q4 occupancy performance at 73% was on par with the previous quarter. Meanwhile, strong ADR growth confirmed that London's hotels remain an effective hedge against inflation, with ADR some 23% ahead of 2019 for the nine month period April to December 2022, equivalent of 3.1% real ADR growth.
- In line with historical seasonal norms, Regional UK recorded weakening consumer demand in Q4, averaging 68% occupancy, but with a strong 10 percentage point uplift versus Q4-2021. ADR growth averaged 16% ahead of 2019 for the nine month period April to December 2022, whilst RevPAR growth of 4.6% was recorded.
- A recovery in top-line performance has supported the recovery in profits compared to 2021, but with rising cost pressures, profit margins are being squeezed. In regional UK, GOPPAR remains 15% lower than Q4-2019, whilst GOPPAR in London is 2.4% lower. In Q4-2022, regional UK achieved a GOP margin of 26% (35% in Q3) and London 44% (46% in Q3).

OUTLOOK

- Visit Britain are forecasting 35.1 million inbound visits for 2023, 86% of 2019 levels and 18% higher than 2022 total forecast visits. Whilst visits from European markets are forecast to recover quicker, long-haul visits are expected to rise to 11 million. Fuelled by strong demand across multiple segments, the ability to drive average room rates within a high inflationary environment and improve occupancy performance remains promising in 2023.
- Challenging operating conditions will continue to put margins under pressure. A sector rebase in business rates, however, will offset some of these rising costs, with some hotel owners seeing a reduction in business rates by at least 30%.

SUPPLY

- Over 10,000 new rooms opened in the UK in 2022, with 2.2% supply growth in London and 1.0% in regional UK. Looking ahead to 2025, for all projects with a planned date of opening, London's compound annual average growth is set to slow to 1.5% and to 0.8% in regional UK.

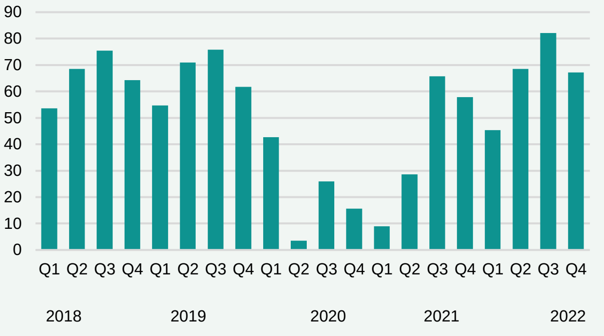
RevPAR in London

Quarterly, £

Source: HotStats

RevPAR in Regional UK

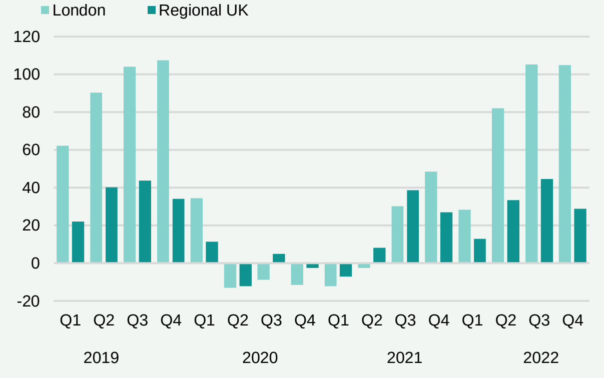
Quarterly, £



Source: HotStats

Gross Operating Profit PAR

Quarterly, £



Source: HotStats

HOTEL

TRANSACTIONAL MARKET

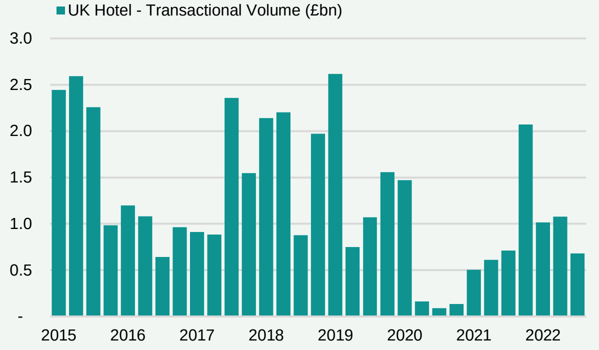
INVESTMENT

- The UK hotel market recorded c.£3.0 billion of hotel transactions in 2022, 32% below the five-year average and 23% below 2021 investment levels.
- 2022 was a year of vastly changing circumstances, with H1 accounting for 70% of the total annual investment. With many deals thwarted by the unprecedented market turbulence and rising cost of borrowing, by the end of Q3, some 93% of the total annual hotel investment had taken place.
- Transactional activity was evenly split, with London and regional UK each recording some £1.5 billion of transactions. London transaction volumes declined by 31% and regional UK by 10% versus 2021.
- Overseas investment fell far short of pre-pandemic and pre-Brexit investment levels, with 2022 transaction volumes down by 58% versus 2019. Overseas buyers invested c.£880 million, with 71% of activity taking place in H1-2022.
- Very few branded city-centre hotels transacted in 2022. Instead, a higher number of smaller hotels transacted in regional UK. Some 76% of single asset hotels transacted at a price below £10 million, with independent hotels transacting in regional UK totalling £850 million, with an average selling price of £7 million.

OUTLOOK

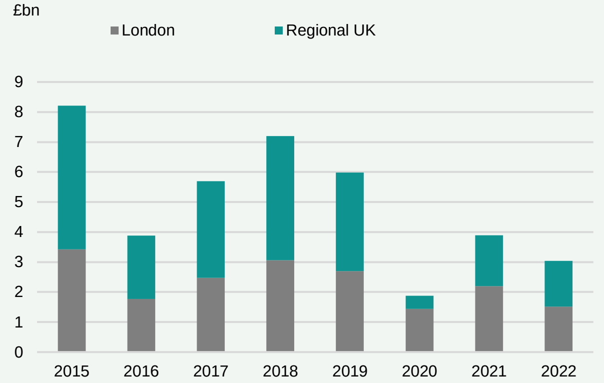
- Whilst the challenging economic backdrop has caused certain investors to retrench, for others this time presents renewed pickings for identifying and securing new investment opportunities.
- The hotel investment market in 2023 is now more stable than compared to the period immediately following the mini-budget. As the recovery in trading continues, investor confidence in the hotel sector is expected to strengthen.
- London will remain a key investment target for overseas investors. Well-performing hotel assets in prime destinations remain highly sought after.
- The need to improve liquidity, to reduce debt or where an asset needs significant capital investment, is likely to provide motivation for some transactional activity taking place in 2023.

Investment volumes



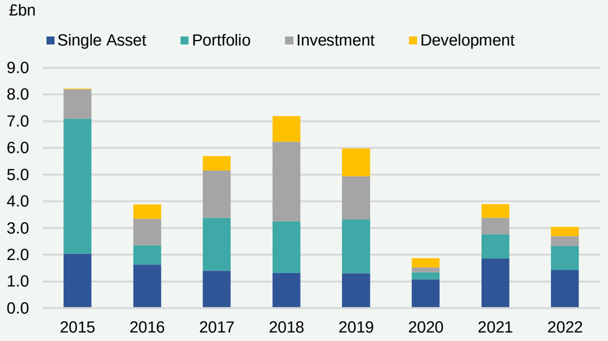
Source: CoStar Group; Real Capital Analytics, MSCI, Knight Frank Research

Investment volumes



Source: CoStar Group; Real Capital Analytics, MSCI, Knight Frank Research

Investment volume breakdown



Source: STR, a CoStar Group Company; Real Capital Analytics, MSCI, Knight Frank Research

LIFE SCIENCE

MARKET OVERVIEW

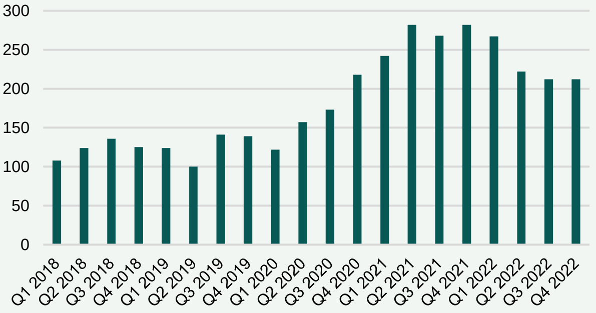
SECTOR PERFORMANCE

- UK life sciences venture capital funding reached £686m in Q4 2022, a 12% decline quarter-on-quarter and £3.4bn for the full year 2022, a 41% decline year-on-year.
- It should be noted that there were some significant funds raised outside of venture capital. Shield Therapeutics is in talks to receive £14.7m of development capital from undisclosed investors through a private placement as of December 13, 2022.
- The number of life sciences companies incorporated in the UK reached 212 in Q4 2022, bringing the total for 2022 to 913. This makes 2022 the second highest year on record for UK life sciences company incorporations.
- There was a total of 37,783 scientific & QA vacancies in Q4 2022. This represents a marginal 1% increase on last quarter but a decrease of 6% from Q1 2022.

OUTLOOK

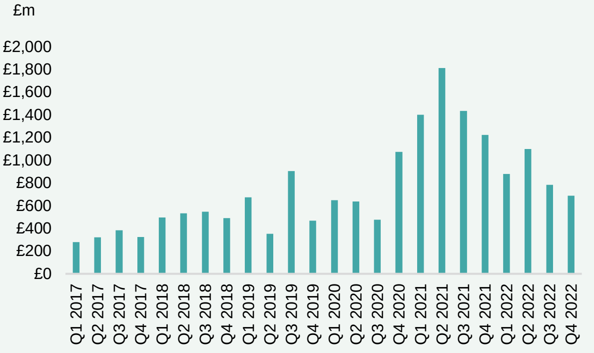
- The sector continues to remain attractive to investors due to the strong underlying growth fundamentals albeit it is anticipated that venture capital will be impacted by economic headwinds in the short-term. Good companies, however, will secure the funding they need, although it may take longer to secure.
- Moving forward we anticipate other forms of funding to come to the fore. Examples include: M&A and private equity.
- In terms of outlook it is also worth noting that the UK government has made a number of announcements as part of a plan to make the UK a global life sciences superpower. These include: Regulatory reform, continued commitment to increase R&D funding to £20bn a year by 2024-25 and reforms to make it easier for pension funds to invest in venture capital.

Life sciences company incorporations



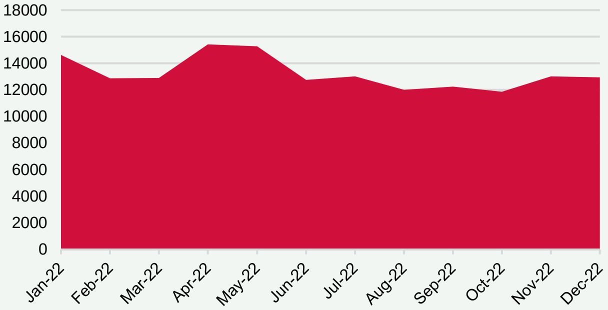
Source: Knight Frank

UK Life science venture capital funding



Source: Knight Frank, PitchBook. HQ location UK, Completed deals only.

Vacancies for scientific and QA roles UK.



Source: Knight Frank, Adzuna

LIFE SCIENCE

MARKET OVERVIEW

INVESTMENT MARKET

- Golden Triangle (Oxford, Cambridge and London) life sciences investment volumes reached £325m in Q4 2022 and £1.26bn for the full year 2022.

- Active investors in Q4 2022 were: Kadans Science Partner who acquired Windrush Court in Oxford from Oxford Biomedica in a sale and lease back transaction for £60m, Cadillac Fairview and Stanhope who purchased a trio of properties within Cambridge Science Park for £85m and Brockton Everlast who acquired three buildings on Cambridge Science park for £180m.

OCCUPIER MARKET

- Oxford, Cambridge and London remain the epicentre of life sciences leasing activity.

- Key leasing transactions in the South East in Q4 2022 included: OMass Therapeutics who acquired 16,389 sq ft at 4000 Chancellor Court in Oxford.

- Key leasing transactions in London in Q4 2022 included: Kadans Science Partner who took 38,715 sq ft at 20 Water Street, E14 for conversion into fully serviced wet-labs. There were also a number of life sciences office deals. GSK, for example, selected The Earnshaw Building for its new HQ, which is currently located in Brentford and put up for sale last year. The company said in a statement that the site offers close proximity to London’s fast-growing life sciences hub, as well as academic partners such as the Francis Crick Institute. The site will house around 3,000 people.

- The supply of suitable space for life sciences occupiers remains extremely constrained in the Golden Triangle.

AUTOMOTIVE

MARKET OVERVIEW

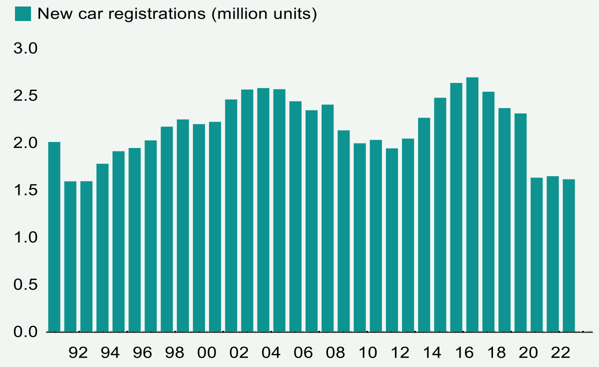
MARKET COMMENTARY

- Due to wider macro-economic headwinds, we witnessed valuation discounts on some industrial stock last year, where prices paid in the previous 12-24 months appeared to be very aggressive, with more modest 'price corrections' in the motor retail market.
- Turning to 2023, we expect to see a continuation of larger institutional funds moderating their exposure to the commercial property sector in general, which may in turn provide opportunities for motor trade tenants to acquire freeholds and extinguish rental liabilities.
- Many dealers will also be focusing on reducing their operating costs, which have come under scrutiny due to the recent elevated energy and transportation costs. Coupled with the upcoming 2023 business rates revaluation, this will ultimately further increase dealer pressure on bottom lines.

REGISTRATIONS

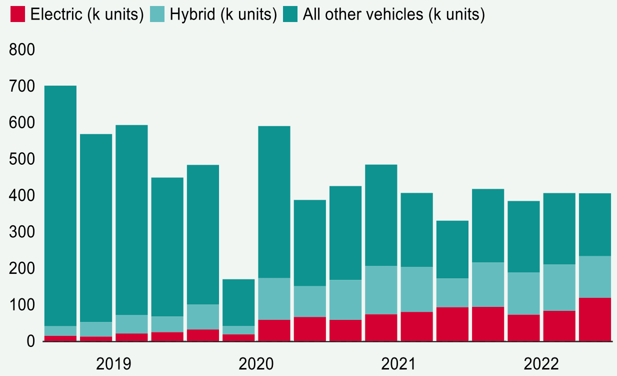
- The UK new car market grew 14.7% in January to reach 131,994 units, according to the latest figures from the Society of Motor Manufacturers and Traders (SMMT), setting the tone for an anticipated countercyclical year of growth.
- This was the best start to the year since January 2020's pre-Covid 149,279 units and marks the sixth successive month of expansion. Electrified vehicles notably drove the increase, as manufacturers continue to bring ever more choice to the market despite ongoing strains on the supply chains.
- The strong start to the year is mirrored in the latest market outlook, which anticipates 1.79 million new car registrations in 2023, an 11.1% increase on the past year but still well below 2019 levels.

New car registrations



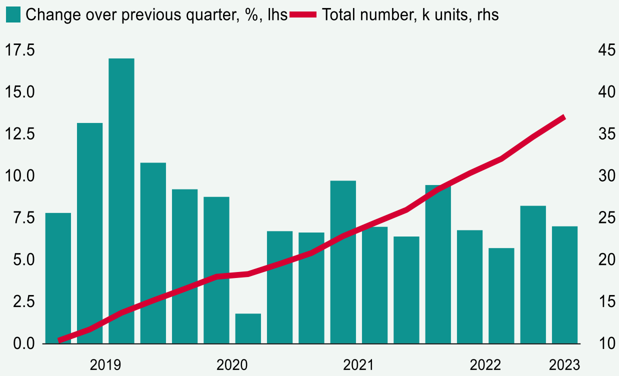
Source: Macrobond

New car registrations by fuel type



Source: Macrobond

Electric vehicle public charging devices



Source: Macrobond

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