UK CRE Quarterly
May 2023

UK CRE QUARTERLY REVIEW

knightfrank.com/research

Economic update

GLOBAL AND UK ECONOMY

Contact:

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GLOBAL ECONOMY

ECONOMIC UPDATE

WORLD GDP OUTPUT

- The global growth outlook remains uncertain. The IMF revised its 2023 global GDP growth forecast down by -10bps to 2.8%, compared to its January 2023 forecast. The IMF expect financial sector turmoil, elevated inflation, and the recent tightening in global financial conditions to impact the global economy over the medium term.
- US economic growth slowed in the first quarter of 2023. US GDP increased by an annualised +1.1%, moderating from +2.6% growth in the previous quarter. This was the weakest pace of expansion since Q2 2022, suggesting the impact of the US Federal Reserve's historic monetary tightening cycle is beginning to take effect. Meanwhile, Euro Area GDP grew by +0.1% q-q in Q1 2023, following flat growth in Q4.
- Despite macro economic headwinds, labour markets across many geographies remain tight with low levels of unemployment. US unemployment fell to 3.4% in April, remaining below the long term average (LTA) of 5.7%. German unemployment was unchanged for a second consecutive month at 5.6% in April, also below the 8.3% LTA.

BUSINESS ACTIVITY

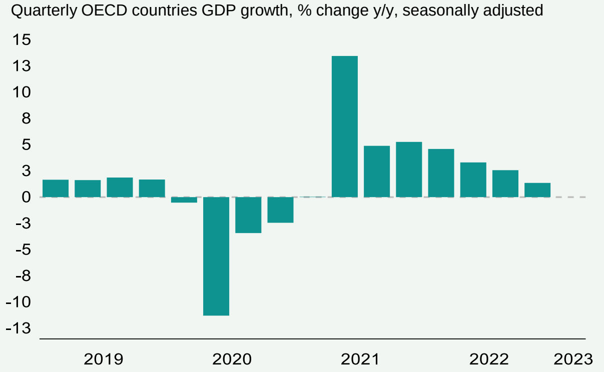
- Global business activity improved in 2023. The Global Composite PMI increased to 54.2 in April, from 53.4 in March, remaining in expansionary territory (above 50) for the third consecutive month, and rising to a 16-month high.
- The Global Services PMI rose to 55.4 in April, from 52.9 in March, the sharpest rate of expansion since April 2022.

INFLATION

- Headline inflation has been declining since mid-2022 in most major economies due to lower energy prices, weaker global demand and easing supply-chain pressures. However, inflation remains elevated with some rates close to double their pre-2021 levels.
- Inflation in the US eased for the tenth consecutive month to 4.9% in April, while Euro Area inflation increased to 7.0% in April 2023, up from March's 13-month low of 6.9%.

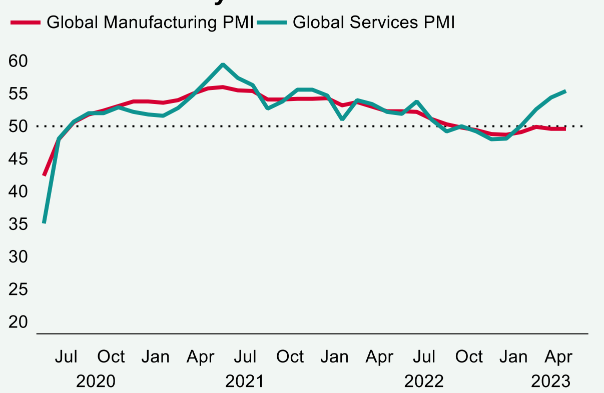
Gross Domestic Product

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



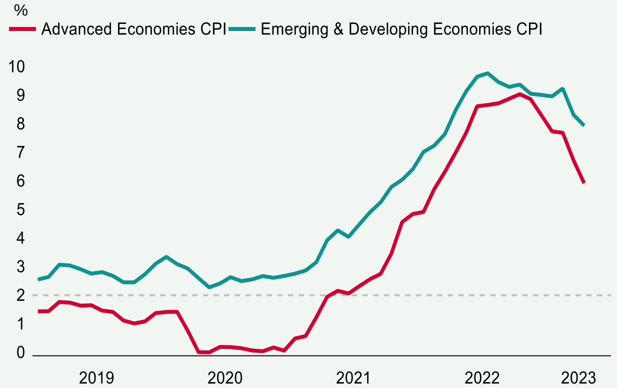
Source: Macrobond, OECD

Business Activity Index



Source: Macrobond, S&P Global/ CIPS

Inflation



Source: Macrobond, World Bank

UK ECONOMY

ECONOMIC UPDATE

UK GDP OUTPUT

- UK GDP expanded by +0.1% in Q1 2023, the same as in Q4 2022, and in line with market expectations. On a monthly basis, GDP moderated by -0.3% in March 2023, following flat growth in February.
- The Bank of England (BoE) upgraded its GDP forecast for 2023. GDP is now expected to rise by +0.25%, an improvement on the -0.50% last forecast in February. This reflects an improved consumption outlook due to ongoing labour market strength and moderating wholesale gas futures.
- For 2024, the BoE forecasts GDP to increase to 0.75% *(*previously -0.25%).
- UK unemployment increased by 0.1ppts to 3.9% whilst headline total pay growth slowed in Q1 2023. The BoE forecasts UK unemployment to remain below 4.0% until the end of 2024, rather than rising towards 5.0% as projected in its February report. Recent data releases imply a further loosening in the labour market, which may alleviate some of the pressure on the Bank of England to hike rates any further at its next meeting on 22nd June.

BUSINESS ACTIVITY

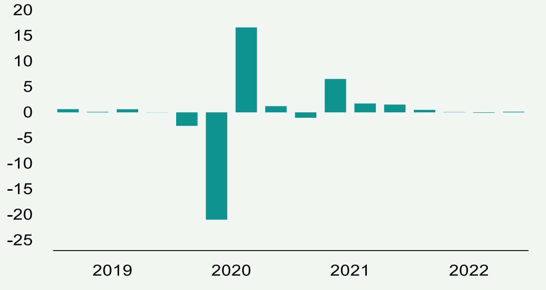
- The UK Composite PMI rose to 54.9 in April, from 52.2 in March, reflecting the third successive and fastest period of expansion (figure above 50) in a year.
- The UK Services PMI increased to 55.9 from 52.9 in March, remaining in expansionary territory for the third consecutive month and pointing to the fastest rate of growth since April 2022. Meanwhile, the UK Manufacturing PMI edged down to 47.8 in April, from 47.9 in March.

INFLATION

- The UK annual inflation rate slowed to 10.1% in March from 10.4% in February, but above expectations of 9.8%.
- Economists mostly expect inflation to fall at a faster pace in April when last year's rapid energy price increases fall out of the figures. The BoE now anticipate inflation to fall to 5.1% in Q4 2023 (previously forecast 3.9%), with inflation projected to hit the 2% target by the start of 2025.

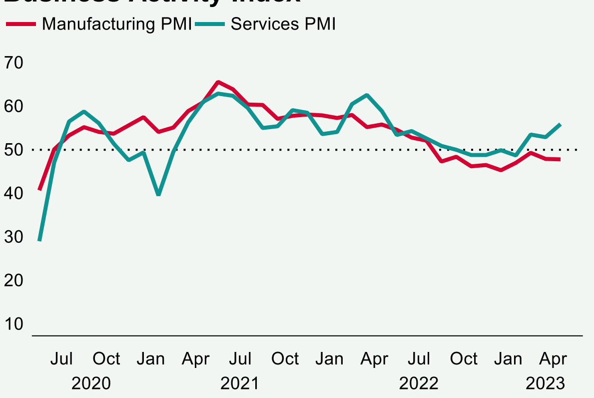
Gross Domestic Product

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



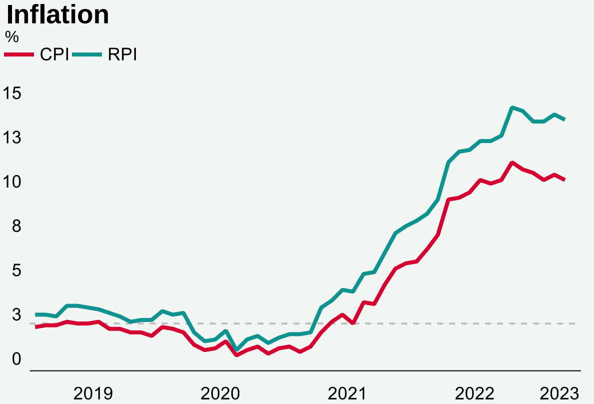
Source: Macrobond, ONS

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

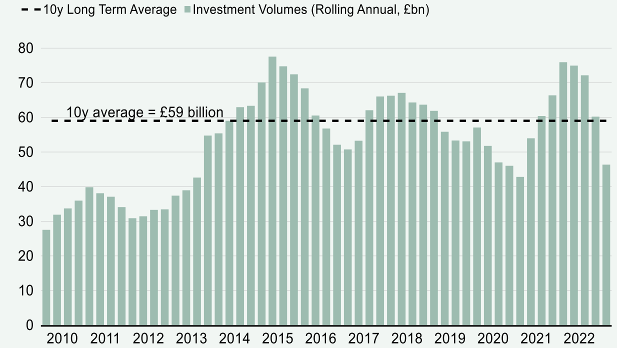
- UK commercial real estate (CRE) investment totalled £9.4 billion in Q1 2023, which was a -57% contraction on Q1 2022, -13% down on investment in Q4 2022 and -20% below the Q1 long term average.
- However, Q1 2022 was the strongest Q1 on record for UK CRE investment, with £22.0 billion invested, and European volumes (-61% y-y) saw similar declines.
- While investment has moderated in the first quarter of 2023 compared to Q1 2022 for all sectors, volumes are up for some sectors versus the soft Q4 2022, including Retail (+151%), Offices (+36%) and Hotels (+11%).
- Office and Retail were the most invested sectors in Q1, followed by Industrial and Hotel.
- Cross-border investors contributed to 46% of UK CRE volumes in Q1 2023, down from their 57% share in Q1 2022. Investment from overseas sources into the UK moderated by -57% y-y in Q1 2023 and was down -13% q-q.

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. This may have already started. In April, 26% of MSCI sector yields softened on a monthly rolling average basis. In comparison, 16% of prime yields in our Investment Yield Guide softened in May.
- 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 due to their counter-cyclical properties and low volatility.
- Our Knight Frank Capital Gravity forecast expects the UK to be the top market for cross border investment within the EMEA region this year and the second most invested market globally for cross border investors, behind the US.

Investment volumes

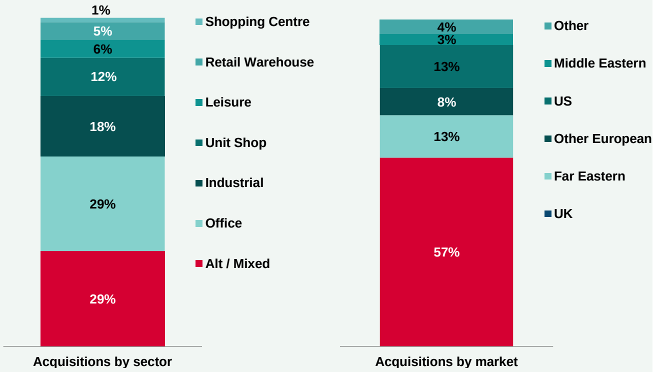
Quarterly investment volumes, rolling **average**



Source: RCA

Investment volume breakdown

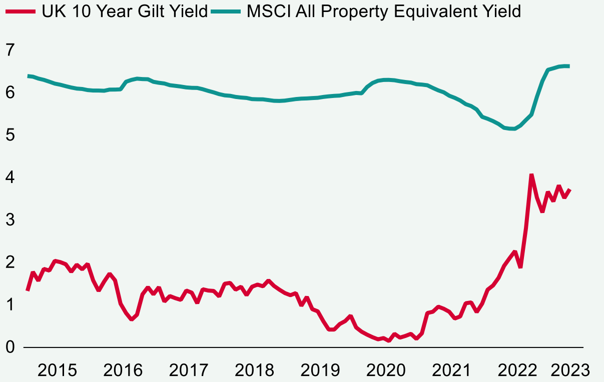
Percentage of YTD 2023 volume



Source: RCA

Property equivalent yield & gilt yield

%



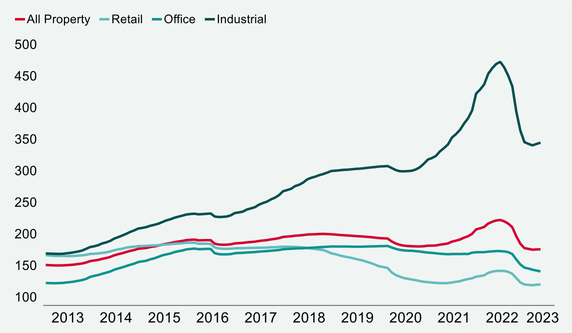
Source: Macrobond, MSCI

CAPITAL MARKETS

COMMERCIAL REAL ESTATE

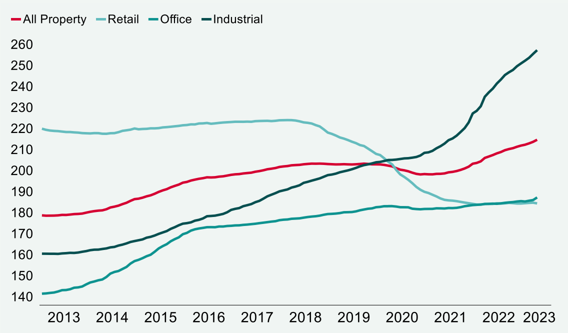
MSCI Capital Value Growth Index

Dec 1986 = 100



MSCI Rental Value Growth Index

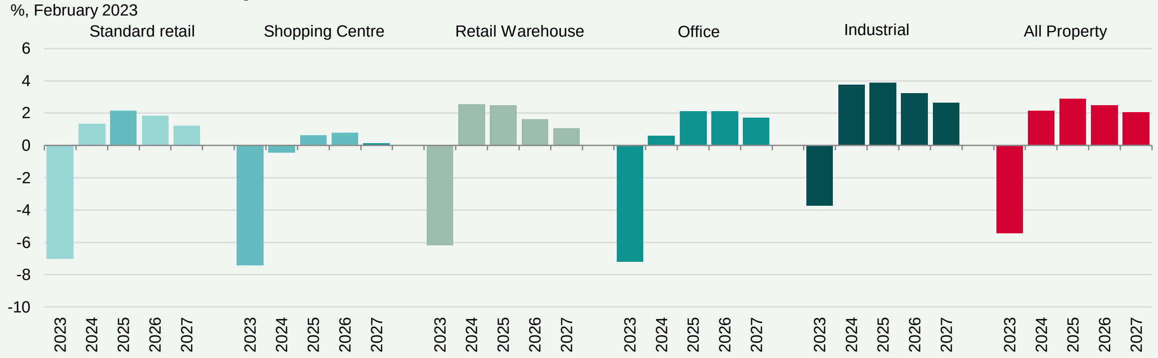
Dec 1986 = 100



Source: Knight Frank, MSCI

IPF Consensus Capital Value Growth Forecast

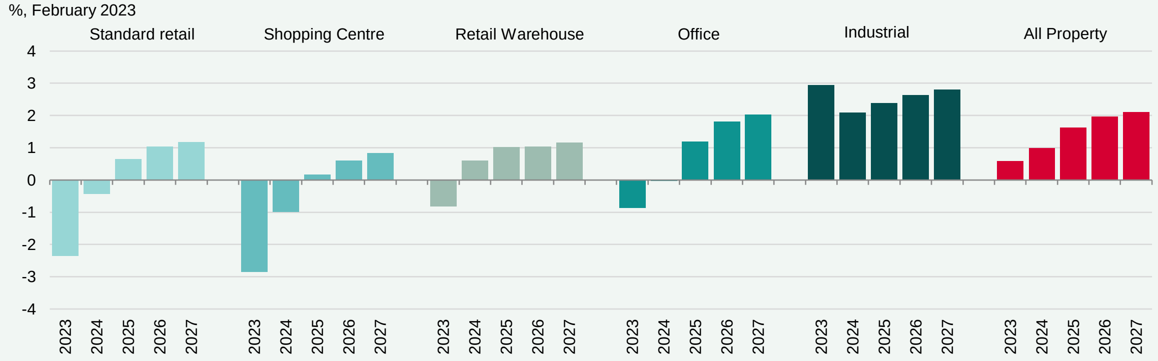
%, February 2023



Source: Knight Frank, IPF

IPF Consensus Rental Value Growth Forecast

%, February 2023



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

INVESTMENT VOLUMES BOUNCE-BACK

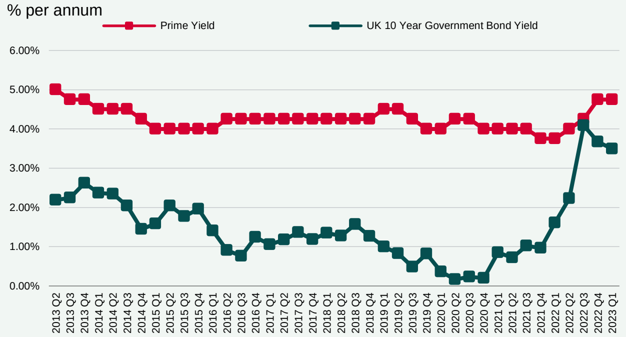
- Transactions in the City and Southbank rose by almost 150% to £1.4bn as investor demand returned following a weak out-turn at the end of last year. Greater levels of activity have been evident during Q1 as the peak in the interest rate cycle approaches, combined with attractive pricing for prime assets.

- Over 90% of volumes were transacted by listed property companies (48.2%) and by private property companies (43.4%). Furthermore, attractive capital values particularly in overseas currencies provided the incentive for investors from the Asia Pacific region to account for nearly three-quarters of volumes.

- The largest transaction last quarter was the £395m sale of St Katharine's Docks, in the City fringe by Blackstone to CDL of Singapore and reflecting a net initial yield of 7.2%.

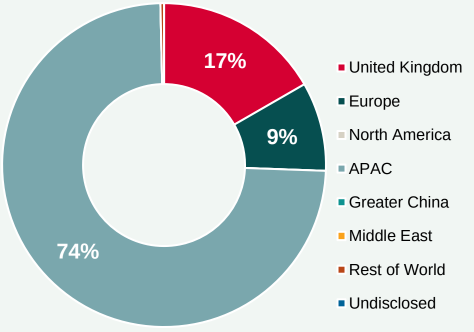
- Prime yields remain unchanged at 4.75% as prospects for best-in-class offices remains relatively strong.

City & Southbank - Prime Yield and 10 Year Government Bond Yield
% per annum



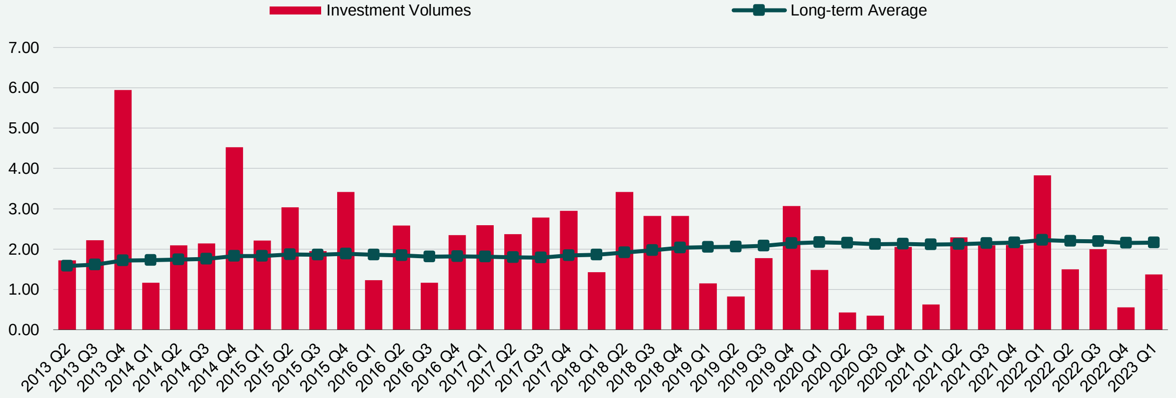
Source: Knight Frank Research

City & Southbank - Investment Volumes by Nationality
2023 Q1, % of total investment volumes



Source: Knight Frank Research

City & Southbank - Investment Volumes Relative to Trend
£bn



Source: Knight Frank Research

CITY OFFICES

OCCUPATIONAL MARKET

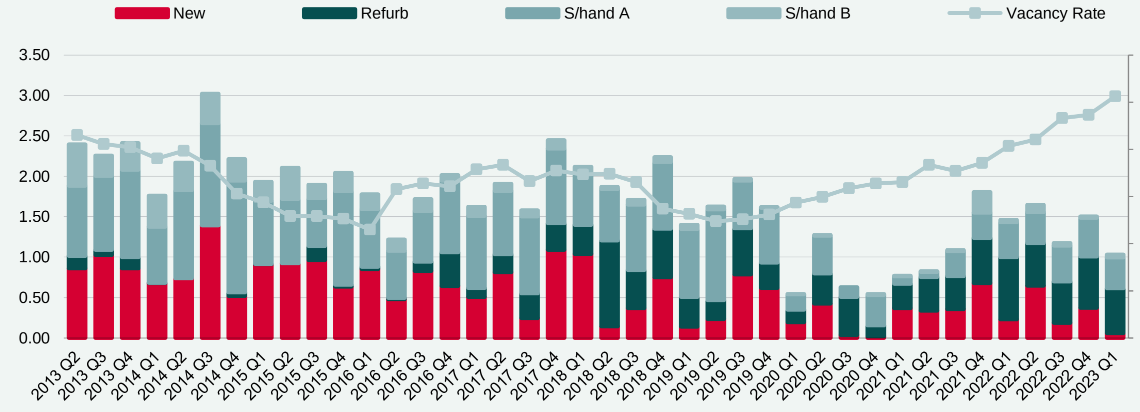
TAKE-UP OF NEW AND REFURB IS HIGH

- Take-up in the City and Southbank was just over 1m sq ft in 2023 Q1, down 30% compared with the previous quarter. During the last 12 months there have been 5.3m sq ft of lettings, which is 20% below the long-term annual trend.
- Despite a 40% fall in Q1, take-up of new and refurbished space remains above trend and during the last 12 months has accounted for just below two-thirds of take-up.
- The professional services group have been the occupier group with the largest share of take-up (40%) and more than twice the level of the next largest occupier group, financials (17.3%).
- Headline prime rents in the core City and Southbank submarkets were unchanged in Q1 at £75.00 per sq ft. Rent free periods were also unchanged at 24-27 months for a 10 year lease.

FURTHER RISE TO AVAILABLE FLOORSPACE

- Availability rose by almost 9% during the quarter to 13.8m sq ft which is a vacancy rate of 10.3% and just over 3 ppts above the long-term trend.
- The rise was due in large part to a 20% increase in the availability of secondhand space. New and refurbished space accounts for 58% of all available space.
- However, this space is concentrated in smaller sizeband buildings. In the City Core, for example, there are only 12 available buildings above 60,000 sq ft.
- Development completions during the quarter were relatively small with only 0.32m sq ft of space completing over three schemes. Speculative space under construction is 10.1m sq ft and is scheduled to complete by 2026. 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, % of stock (RHS)



Source: Knight Frank Research

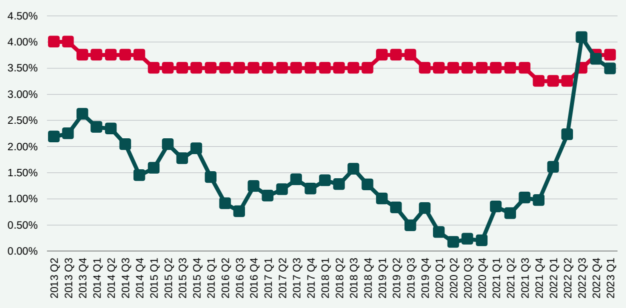
WEST END OFFICES

INVESTMENT MARKET

LOWER TRANSACTION ACTIVITY

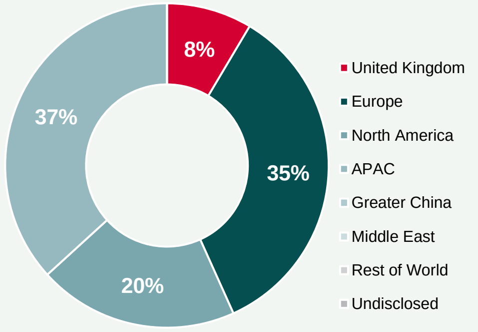
- Investment volumes totalled £0.8bn this quarter, down 16.0% on Q4 and 47.4% below long-term quarterly trend levels. Transaction levels have been impacted by a lack of available, quality stock and by investors exercising some caution following the disruptions in the banking sector.
- Private investors accounted for the largest share of transactions (37.8%) followed by institutions (36.4%). Both investor types were attracted by the re-pricing of prime buildings following a rise of 50bps to yields.
- Investors from Asia Pacific and Europe were the most acquisitive, representing 36.8% and 34.7% of transactions. North American investors returned during the quarter with a 20% share.
- Prime yields in the West End have remained stable at 3.75% as investor demand remains relatively strong for best-in-class buildings that are a hedge against inflation.

West End - Prime Yield and 10 Year Government Bond Yield
% per annum



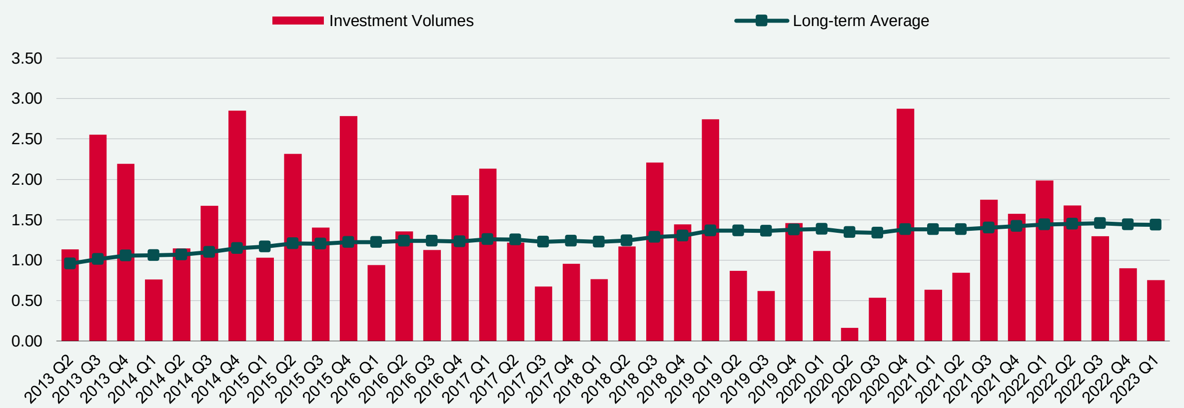
Source: Knight Frank Research

West End - Investment Volumes by Nationality
2023 Q1, % of total investment volumes



Source: Knight Frank Research

West End- Investment Volumes Relative to Trend
£bn



Source: Knight Frank Research

WEST END OFFICES

OCCUPATIONAL MARKET

TAKE-UP MODERATES

- Take-up fell by 39.1% in the West End this quarter to 0.8m sq ft, the lowest level of lettings since 2021 Q2. The reduction in deal flow this quarter means annual take-up was 4.8m sq ft and 3% above trend.
- Although, take-up of new and refurbished space fell during the quarter, annual take-up remains 50% above trend and accounting for 57% of all transactions.
- The financials sector continues to dominate the leasing market accounting for 38.9% of lettings during the quarter, 35.2% during the last year and over half of all current active requirements. Technology, media and telecoms occupiers were the only sector to increase take-up in the West End this quarter, led by Virgin Media's pre-let of 3 Sheldon Square, in Paddington.
- Headline prime rents were stable across all submarkets except the West End Core, rising by £5 to £130 per sq ft. Rent free periods remain unchanged at c.24 months for a 10-year lease.

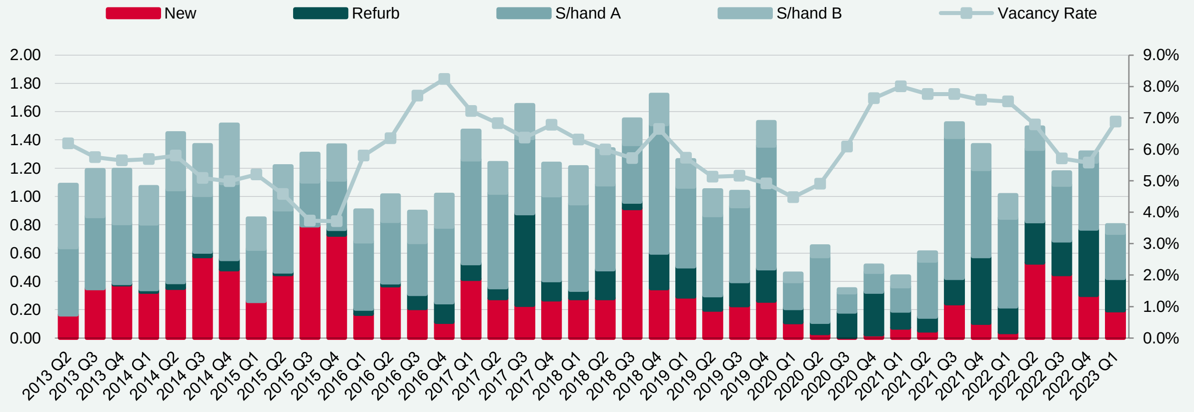
AVAILABILITY RISES DUE TO DEVELOPMENTS

- Availability has risen 23.6% to 6.34m sq ft, the first rise since 2021 Q3. Near-term speculative development completions account for almost 1m sq ft of the rise in availability. Tenant release space of 0.2m sq ft also contributed to the rise in Q1.
- The vacancy rate has increased from 5.6% to 6.9%, and above the long-term average of 6.1%. However, there is considerable variation by submarket and Iia especially low in new business districts with Elizabeth line stations.
- Availability of new and refurbished buildings has risen to 62% of all vacant stock. A significant proportion is in smaller sizeband buildings (0-20,000 sq ft) whilst available space is limited in higher sizeband buildings particularly above 80,000 sq ft.

FUTURE SUPPLY IS MODEST

- There are 4.2m sq ft of speculative completions expected by the end of 2026. Compared with the average annual level of take-up of new and refurbished space of 1.9m sq ft, this suggests a shortfall of best-in-class space during the next four years.

West End - Take-up by Quality and Vacancy Rate
m sq ft, % of stock (RHS)



Source: Knight Frank Research

DOCKLAND OFFICES

OCCUPATIONAL MARKET

TAKE-UP REMAINS LOW

- There was 0.1m sq ft of take-up in 2023 Q1, a quarterly fall of 31.6%. Although, lettings activiy remains modest with transactions 32% below the long-term annual trend, demand has been focussed on better quality buildings.
- During the last 12 months, lettings of new and refurbished space has accounted for 60% of all transactions.
- The education sector was the largest occupier group during the quarter with just over 70,000 sq ft of lettings. The top three transactions of the quarter were all from the education sector, with Teeside University's take-up of 26,720 sq ft at Here East, Queen Elizabeth Olympic Park, the largest of the quarter.
- Active demand has more than doubled in Docklands and Stratford with 0.3m sq ft of requirements. This increase can be attributed to the public sector which accounts for three-quarters of the requirements total.
- Prime rents are unchanged in Docklands but have risen by £1 in Stratford to £48.50 per sq ft. Rent free periods are between 27-30 months for a 10 year lease.

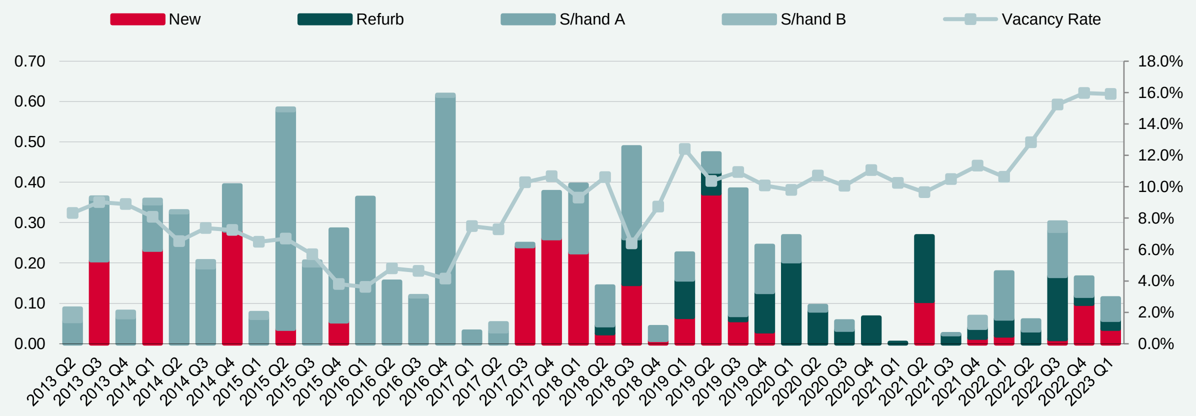
AVAILABILITY BROADLY UNCHANGED

- A rise in vacant new and refurbished space offset almost a 1% fall in secondhand availability, leaving the overall level broadly unchanged at 3.8m sq ft. and a vacancy rate of 15.9%
- For the second consecutive quarter there have been no development completions. The under-construction development pipeline is almost 1m sq ft and completes by 2024.
- The largest scheme is the 415,000 sq ft YY London, 30 South Colonnade and completes this year. In Stratford, there are 560,000 sq ft of schemes under-construction and across four schemes.

TWO INVESTMENT TRANSACTIONS

- £0.1bn was transacted in Q1. The largest being 117 Columbus Court in Canary Wharf, The value-add asset transacted for £99.8m and was acquired by GIC Real Estate and Oaktree Capital Group.
- Prime yields in Docklands and Stratford have risen by 50bps to 6.00%, as investor demand has a greater focus on the more liquid London markets.

Docklands & Stratford - Take-up by Quality and Vacancy Rate
m sq ft, % of stock (RHS)



Source: Knight Frank Research

SOUTH EAST OFFICES

INVESTMENT MARKET

STRONG Q1 RESULTS MASK DIFFICULT INVESTMENT CONDITIONS

- Although the weak economic forecasts and the disrupted geopolitical landscape is diluting investor sentiment, investment volumes for the South East in Q1 2023 totalled £537m across 22 transactions. Both volume and deal count were on par with the long-term average for a Q1 period. Most notably, activity in Q1 2023 reflects the strongest start to a year since before the Covid-19 pandemic, indicating an investor willingness to transact given the right opportunity.

PRICING TO POLARISE?

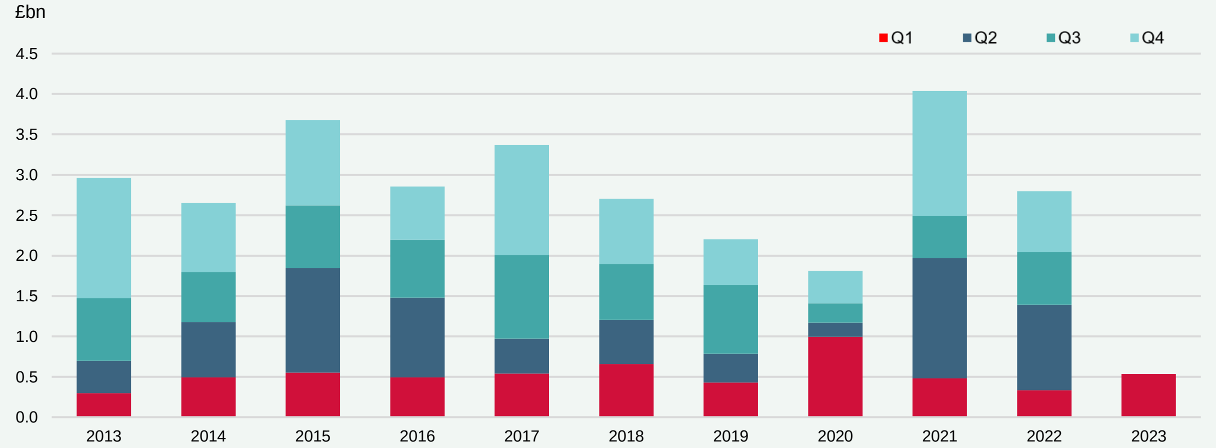
- Prime yields were unchanged at 6.00% in Q1, although as buyer and seller expectations polarise in the coming months, a shift in pricing is likely. Previous market downturns have exampled a flight to quality meaning pricing is solidifying quicker at the higher end of the market. Prime therefore, may well have now met the new level of comfort for investors given the prevailing market conditions. Secondary or higher risk assets, where there's a need for refurbishment and re-letting, could see further correction. However, the size of any shift maybe mitigated by the scale of interest from opportunistic buyers.

DISCOUNT PROVIDES OPPORTUNITY?

The South East has few fully let and stabilised 'prime' offices that will match high-end occupier and core ESG investor requirements. Assets that fit these criteria prove particularly liquid and, following the capital markets turmoil of late 2022, demonstrate a 15-20% discount compared to last year. Pricing is beginning to stabilise where these assets exist, with The Frameworks in Richmond trading at 5.60%, recent evidence of this. This reflects a discount of c.15% from the most recent peak.

Core-plus strategies are harder to define, with investors targeting traditional value-add returns whilst factoring in increased risk and capital expenditure. How do you reposition an existing multi-let office in a strong location but accommodate a lack of significant investment over the last 10-15 years?

Investment volumes



Source: Knight Frank Research

SOUTH EAST OFFICES

OCCUPATIONAL MARKET

OCCUPIERS CAUTIOUS IN Q1

- Following a flurry of occupier deals in late 2022, activity in the first quarter of 2023 proved slow. During the quarter, 358,861 sq ft was leased, 47% below the 10-year average for the period. Significantly, the number of deals completed in Q1 was broadly in line with the long-term trend. The quantum of space taken though was below historical measure, with the average deal size being 7,600 sq ft and the largest deal completed at 30,000 sq ft.
- With active demand remaining relatively robust, the subdued levels of take-up point to present demand translating into lease re-gearing and renewal activity to a greater degree. Landlords are more willing to offer existing tenants favourable terms and incentives to minimise void risks.

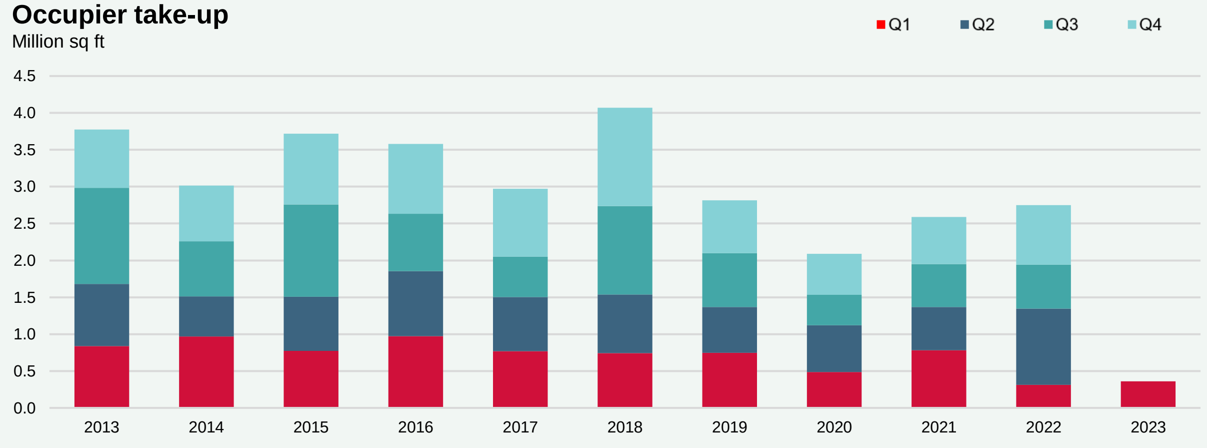
LEASE EVENTS TO DRIVE DEMAND?

- The outlook for the rest of 2023 indicates improvement. At the end of Q1, close to 350,000 sq ft of space was under offer, much of which should transact in Q2. In addition, the tightening supply environment will mean that occupiers will activate searches well ahead of lease events. Close to 4.5m sq ft of lease expiries will occur between April 2023 and the end of 2024. This will support market activity for the remainder of 2023, as occupiers engage earlier to secure the best space.

VACANCY ABOVE TREND, BUT BEST QUALITY REMAINS SCARCE

- Market vacancy remained unchanged in the first quarter at 7.5%, with low level of transactional activity only marginally moving the amount of space on the market. At the end of Q1 2023, total office availability was 12.2m sq ft, representing a 5% increase year-on-year. Interestingly, the rise is attributable to new space entering the marketplace, with availability of this grading rising by 32% when compared to the equivalent period in 2022. Despite this increase however, the amount of new space marketed as at the end of Q1 was 34% below the 10-year average.
- At the time of writing, work on 2.3m sq ft of new or refurbished space was underway, with 1.8m sq ft of speculative development due for completion by 2025. Of this total, 55% of works are comprehensive refurbishment schemes. With development under increasing scrutiny because of cost inflation, the future development landscape in the South East will remain thin and targeted.

Occupier take-up
Million sq ft



Source: Knight Frank Research

UK CITIES OFFICES

INVESTMENT MARKET

INVESTMENT VOLUMES DOWN

- With few high value sales completed, total investment turnover was low in the first quarter. Investment volumes reached £180m in Q1, 12% less when compared to the final quarter of 2022.

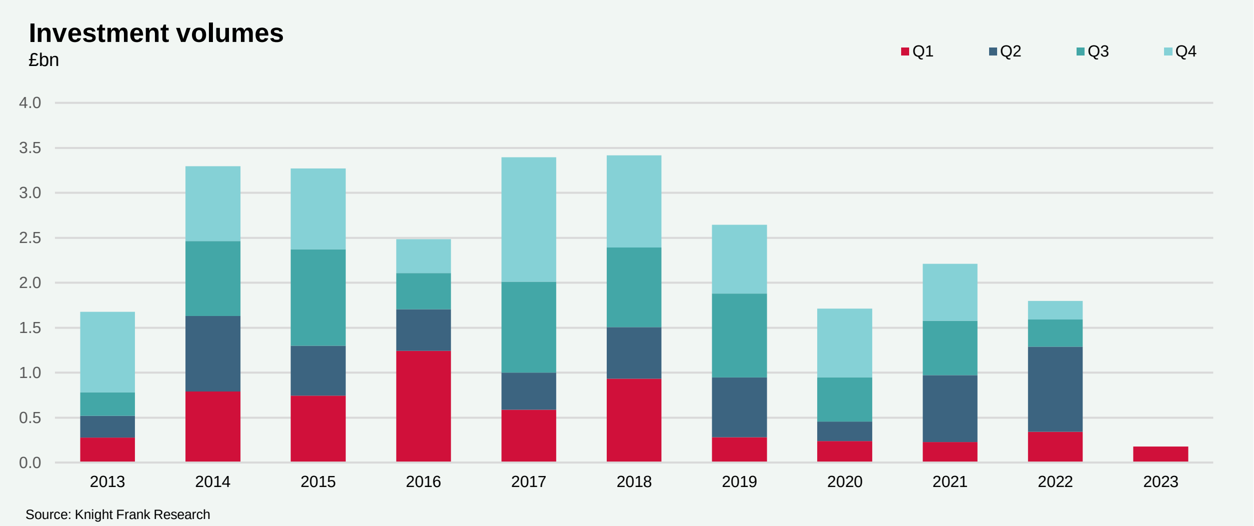
YIELDS STABILISE DESPITE BANKING WORRIES

- Across the UK cities, prime office yields remained largely stable since 2022 year-end. Following rapid market repricing in response to volatile market conditions, prime yields moved out by as much as 100bps across the regional markets in 2022. However, in Q1 2023, prime yields remained stable across the majority of the UK cities, with a tightening of 25bps recorded in Birmingham and Edinburgh.

- With gilts expected to move in to 2.75% in 2023, pressure on property values will ease. As the market stabilises, core and core-plus investors will become more active, with the higher level of activity creating market competition and yield compression.

MEES REGULATIONS TO DRIVE INVESTMENT IN SECONDARY ASSETS?

- With the phased implementation of the upcoming MEES regulations, requiring office space to achieve an EPC C or better by 2027 and an EPC B or better by 2030, investors may seek secondary assets as redevelopment opportunities. For those buildings falling significantly short of the requirements, it presents and opportunity for a total repositioning of the asset and a potential change of use.



Source: Knight Frank Research

UK CITIES OFFICES

OCCUPATIONAL MARKET

LEASING MARKET REMAINS ACTIVE

- Total take-up across the UK cities reached 1.1m sq ft in the first quarter, 27% below the 10-year quarterly average. Even so, the number of deals completed was consistent with the long-term trend at 263.
- The largest deal of the quarter was in Leeds, with take-up bolstered by Lloyds Banking Group taking 124,000 sq ft at 11&12 Wellington Place on a 10-year lease.
- Occupier demand will likely be characterised by the rightsizing, reimagining and relocating of office space. Upcoming lease events will allow occupiers to reassess the quantum of space needed, and allow those to take high quality and amenity rich space, in prime locations that can offer this.

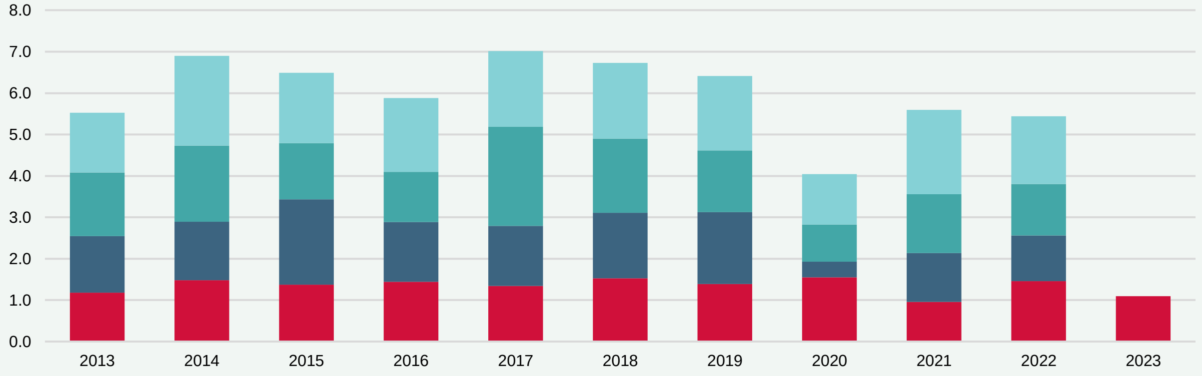
FLIGHT TO QUAITY CONTINUES WITH ESG THE FOCUS

- Following the recent MEES deadline of commercial property requiring a minimum of an EPC E rating in April 2023, environmental considerations are increasingly at the fore of occupiers' real estate strategies and decisions. Across the UK cities, 58% of all leasing transactions were for grade A space. This increased to as much as 86% and 91% in Leeds and Birmingham respectively.
- Regarding the "S", social considerations are becoming commonplace for occupiers. As employee wellbeing has become an important part of occupier strategy, wellness based certifications are becoming increasingly targeted. The EQ building in Bristol is a good example of this, designed to be WELL ready and targeting Cycling Score Platinum, it is partially pre-let to high profile occupiers Arup, Paymentsense and HSBC.

NEW HEADLINE RENTS ACHIEVED

- The majority of the UK cities registered no change to prime rents. However, both Birmingham and Edinburgh saw rental uplift of 2% and 6% respectively, meaning new headline rents were achieved in those markets.

Occupier take-up
Million sq ft



Source: Knight Frank Research

Industrial & Distribution

INVESTMENT AND OCCUPATIONAL MARKETS

Contact:

Claire Williams

INDUSTRIAL & DISTRIBUTION

INVESTMENT MARKET

MARKET OVERVIEW

- Annual UK Industrial capital growth continues to fall. In the year to March -24.53% was recorded, down from -22.14% in February (MSCI). Annual total returns also declined in March. They stood at -21.45%, down from -19.06% in February, and a peak of 43.0% in April 2022 (MSCI).
- However, monthly total returns rose back into positive territory in March, with 1.06% growth, compared with -0.30% in February and compares with all sector total returns of 0.67%.

INVESTMENT

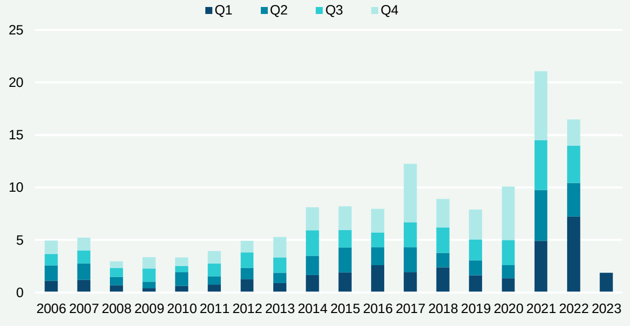
- The investment total for Q1 2023 currently stands at £1.9 billion. As anticipated, the total is down in comparison to the first quarter totals in 2022 and 2021, though it exceeds the pre-pandemic 10-year average.
- While institutional investors have been far less acquisitive compared with previous years, there has been a significant upswing in private capital, which accounted for a quarter of the total invested in Q1 2023. With the recent softening in yields making pricing in the sector more favourable (particularly for well-capitalised investors) and less competition from institutional buyers, private investors have been able to find buying opportunities in the sector.

YIELD TONE

- Prime Distribution / Warehousing with 15-year income on open market rent reviews were at 5.25% at the end of Q1 2023, compared with 5.25%-5.50% at the end of last quarter.
- For SE Estates (excl. London and Heathrow), yields were at 5.00-5.25% at end-Q1 2023, compared with 5.00-5.50% last quarter (December 2022).

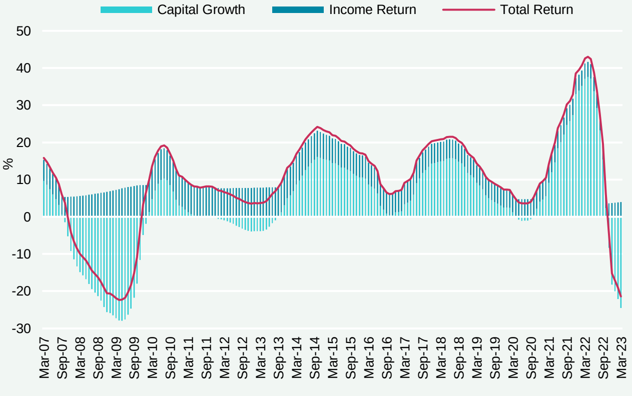
Investment volumes

£bn



Source: Knight Frank Research, RCA

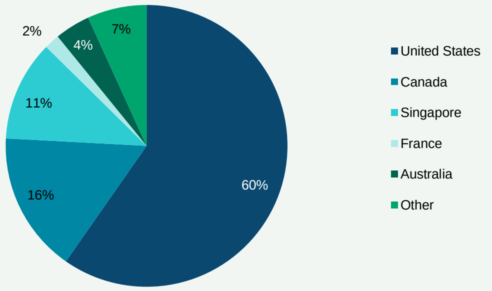
Total return (annualised)



Source: Knight Frank Research, MSCI

Origin of capital

Last 12 months, %



Source: Knight Frank Research, RCA

INDUSTRIAL & DISTRIBUTION

OCCUPATIONAL MARKET

MARKET OVERVIEW

- Average rents for UK Industrial continue to grow. The rate of annual growth in the year to March is 8.6%, down from a peak of 13.2% in the year to August 2022 (Source: MSCI).
- Our analysis of Q1 data shows the growing diversity of the occupier base, demonstrating the resilience of the sector despite the temporary pullback in demand from online retailers. Last year manufacturers accounted for a quarter of all take up and this has continued into 2023, with manufacturing firms representing 26% of all floorspace taken in the first quarter. This compares with 19% in 2021 and just 10% in 2020. Demand from advanced manufacturers, including engineering, electronics, and automotive and aerospace firms accounted for just over 10% of annual take up between Q1 2022 and Q1 2023. Meanwhile, occupier take up from life sciences manufacturers rose 193% in the past 12 months, with Siemens Healthineers taking just over 600,000 sq ft in Bicester, Pelican Healthcare taking 82,000 sq ft in Cardiff, and CMR Surgical taking 75,000 sq ft in Ely, near Cambridge all in Q1 this year.

TAKE UP

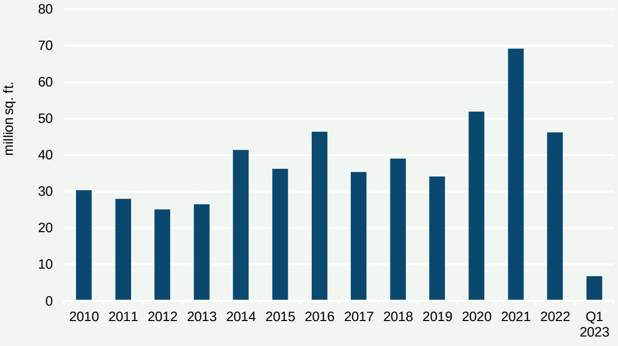
- Q1 take up figures show a total of 6.9m sq ft of space committed. This is down from 8.3m sq ft last quarter (Q4 2022).
- In 2022 a total of 46.2 million sq ft was taken up by occupiers. Though the 2023 total is expected to be lower, we anticipate it to be in line with the pre-pandemic 5-year average, with 36 million sq ft of space expected to be taken this year, compared with the 5-yr average (2015-2019) of 35 million sq ft.

SUPPLY

- Q1 2023 figures show vacancy has increased from 3.3% in Q4 2022 to 4.0% in Q1 2023. The rise in vacancy results from a combination of both development completions and second hand space coming back to the market.

Take up

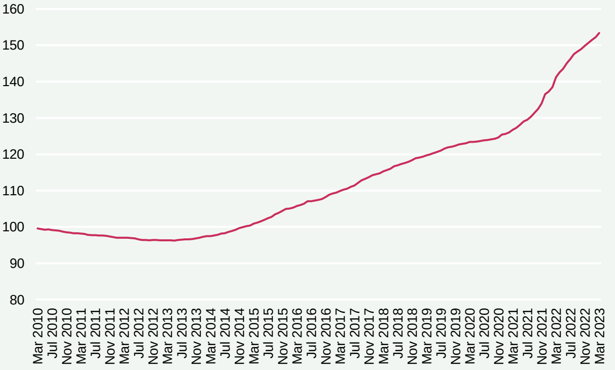
Units over 50k sq. ft.



Source: Knight Frank Research

Average market rental growth

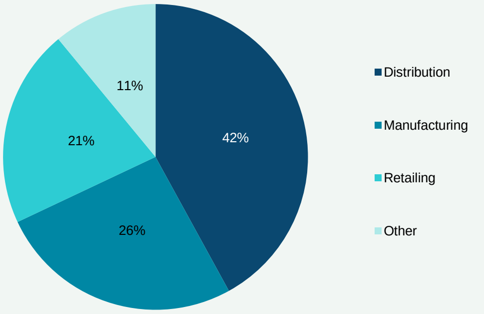
Jan 2010 = 100



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

- The mood of consumers has improved considerably in recent months. Overall, sentiment is climbing closer to positive territory (January -45 pts vs. April -30 pts) but remains severely depressed. Crucially for retail sales, outlook on personal finances (-13 pts) is in a far better place than sentiment toward the general economy (-34 pts).
- Q1 retail sales show consumers are still willing and able to spend more (values +5.6%), despite purchasing less items (volumes -3.8%). Inflation is still impacting sale volumes, but to a lesser degree than previous quarters (Q4: -6.3% / Q3: -5.2%).

OCCUPIERS

- There has been very little retail occupier fall out in year-to-date (YTD) figures, with the market far more benign that predicted.
- Of the 27 retail failures reported by the Centre for Retail Research, only two are household names of any scale (Paperchase and M&Co). The remainder aren't technically retailers (e.g. manufacturers, distributors, wholesalers). Or are local retailers without national presence (Farmison & Co, Batemans Opticians).
- Although scale of distress has thankfully been limited, the retail market remains a tough place to be, with cost inflation still a very real issue. Operators have inevitably seen a hit to their profits, but the majority have upgraded guidance in recent months rather than issue warnings. Most retailers have been braced for downturn and have prepared and communicated accordingly.

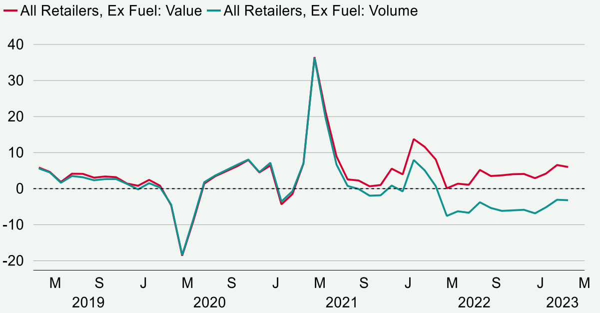
INVESTMENT

- Q1 investment volumes totalled £1.2bn, marking a slight uptick on Q4 levels (+13% QoQ). However deal volumes remain substantially below the 5-year quarter average (-39%), and -20% below the same quarter in the year prior.
- A degree of repricing is still taking place across the sector, with capital value declines accelerating in March to -13.6%. Meanwhile rental growth has been relatively weak, although in positive territory (+0.2% March).

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

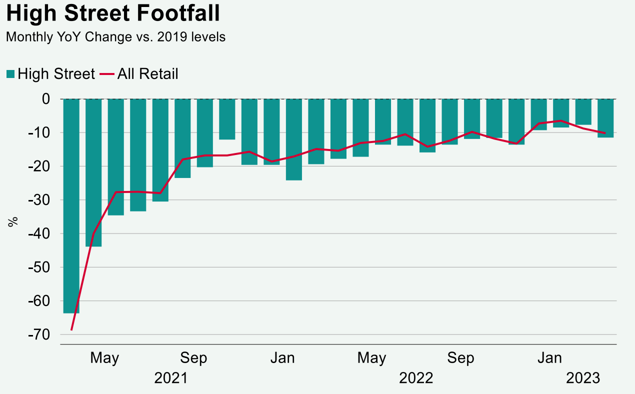
- Versus 2019 levels, footfall in March was down -11.5%, below All Retail (-10.2%). However, the rate of improvement versus the year prior was much stronger (+8.6%) versus All Retail (+6.8%).
- On a city basis, Edinburgh saw the best footfall improvement, up +24.4% YoY. In contrast Birmingham saw much weaker improvement (+2.3%). Both cities' footfall is substantially below 2019 levels, at -2.4% and -11.7% respectively.

OCCUPIERS

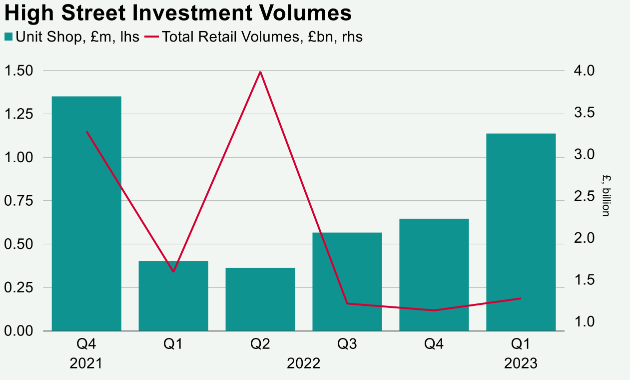
- Vacancy rates held stable at 13.8% in Q1, in line with the All Retail rate (13.8%).
- Distress amongst high street operators has been limited to date. Recent announcements by Paperchase, M&Co, and Prezzo can be traced back to operational shortcomings unique to each operator, rather than a barometer of general economic malaise.

INVESTMENT

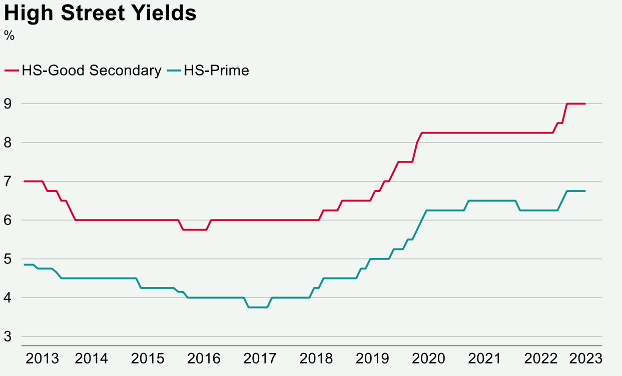
- Deals volumes totalled £1.13bn, a major uplift (+76%) on Q4 levels, and substantially above the 5-year quarter average (+105%).
- One of the largest deals of the quarter was the sale of 27 Old Bond Street (London). The Alexander McQueen flagship sold for £143m to fintech company Blue Tower Ventures.
- Substantial investments were also made in the regional market towns and cities of Cambridge, Exeter, Bristol, and Edinburgh. Sizeable deals included the £20.7m disposal of 16 – 18 Market Street (Cambridge) by CBRE Global Investors, and £20.5m acquisition of 5-7 Castle Street (Edinburgh) by FSX Holdings Ltd.
- Overseas Investors were particularly active, taking advantage of repricing and stronger currency positions, with competitive advantage against UK buyers and large institutions more sensitive to debt.



Source: BRC



Source: Property Data, Macrobond



Source: Knight Frank, Macrobond

SHOPPING CENTRES

MARKET OVERVIEW

CONSUMERS

- Footfall in Shopping Centres (-20.3%) continues to lag the major sub-sectors (HS: -11.5% / RP: -5.3%) on a pre-pandemic basis. However, comparison on a year-on-year basis (+8.2%) shows recovery is still in full-swing.
- Q1 Non-Food retail sales were strong (+5.6%), with solid performance amongst many 'discretionary' categories. Several high-street categories outperformed the wider market with double-digit spending growth: Footwear (+28.1%), Cosmetics (+26.6%), and Clothing (+13.3%).

OCCUPIERS

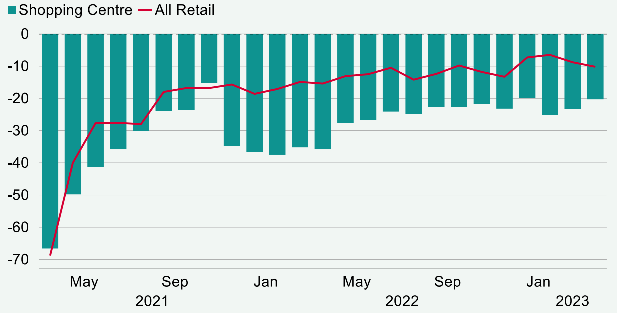
- With nearly a year of increasingly 'normalised' trading under their belts, operators implemented expansion plans. Pradera Lateral reported flagship expansions by Next, H&M, M&S, and JD Sports at The Trafford Centre (Manchester). Landsec reported occupancy had risen to 93.1% in St David's Shopping Centre (Cardiff) with relocations, upsizing, and new stores by Zara, Ivy Asia, Gaucho, and Footasylum.
- Vacancy rates improved -40bps to reach 17.8% in Q1. Rates have improved substantially on a YoY basis, by approximately -120bps.

INVESTMENT

- Deal volumes totalled £124m, ca. 23% of total retail volumes for the quarter. This marked a -61.3% decline vs. Q4, and almost a quarter below the 5-year average.
- High profile transactions included The Mall (Luton) for £58m to Frasers Group. The sale reflected a significant cut from the original asking price (£81m). Frasers is allegedly intending to split the former Debenhams department store into Frasers-owned chains, such as Flannels. The deal represents a trend of retailers increasingly considering the sector on an investment basis.
- Land Securities purchase of debt secured against 50% of St Davids Shopping Centre (Cardiff) saw it take full ownership of the asset. Leasing momentum is reportedly strong, with brands relocating from elsewhere in the city, increasing occupancy from 88.1% (March 2021) to 93.1% (2023 start).

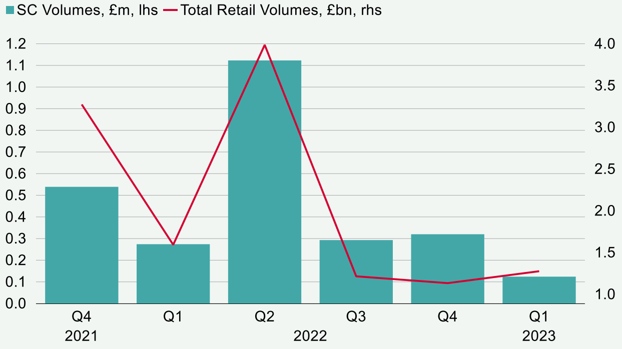
Shopping Centre Footfall

Monthly YoY Change vs. 2019 levels



Source: BRC

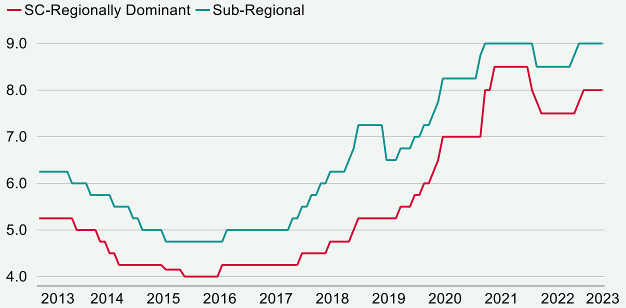
Shopping Centre Investment Volumes



Source: Property Data, Macrobond

Shopping Centre Yields

%



Source: Knight Frank, Macrobond

OUT OF TOWN

MARKET OVERVIEW

CONSUMERS

- Footfall is still the 'least worst' (-5.3% March) of all the retail sub-classes (HS: -11.5% / SC -20.3%), with the format still proving popular with consumers.
- Q1 retail sales performance was relatively strong across Food (+10.1%) and Non-Food (+5.6%). However, Out of Town category performance was mixed, with evidence of softening demand for 'big ticket' items: DIY (-13.2%), Electrical Appliances (-12.2%), and Carpets (-5.9%) .

OCCUPIERS

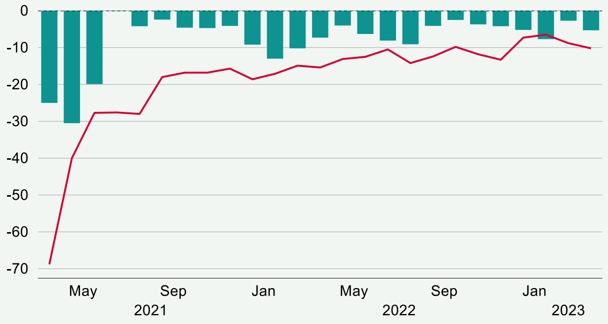
- Out of Town vacancy rates improved by -30bps to 8.7% in Q1. Rates have shown the biggest improvement of all the retail sub-sectors over the last year (-190bps), vs High Streets (-30bps) and Shopping Centres (-120bps).
- Under recovering sales performance, occupiers have been resuming expansion plans. Halfords set out a growth roadmap for its mid to long term horizon, with aim of becoming the UKs biggest motoring service provider. Meanwhile Screwfix reported 2022 to be a record year for store openings, increasing its UK target to 1,000 stores.

INVESTMENT

- Investors are eager to allocate capital to the sub-sector due to its strong fundamentals (rebased rents, reduced rates, low voids, lack of new development).
- Total returns for Q1 (2.37%) made it the best performing of all CRE sectors, above Retail (1.04%), All Property (0.15%), and even Industrial (0.66%) – meaning the sub-sector now tops most investors' shopping lists.
- Despite the weight of capital chasing Retail Warehousing, available stock is constraining deal volumes, with sales mostly emanating from vendors under pressure to dispose.
- Investment totalled £514m, marking a slight deceleration on Q4 levels (-2.7%), and only marginally below the 5-year quarter average.

Retail Warehouse Footfall

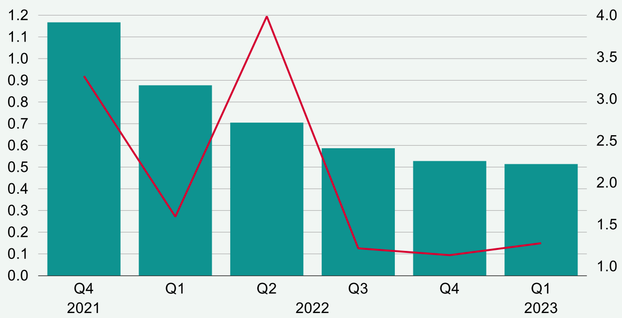
Monthly YoY Change vs. 2019 levels



Source: BRC

Retail Warehousing Investment Volumes

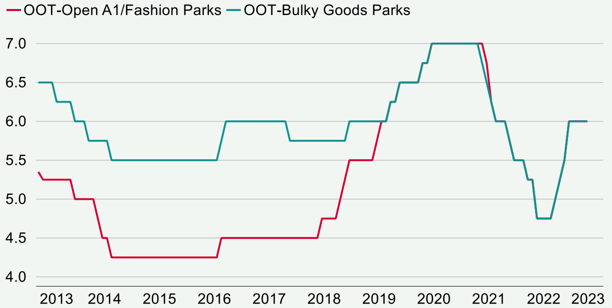
RW Volumes, £bn, lhs — Total Retail Volumes, £bn, rhs



Source: Property Data, Macrobond

Retail Warehouse Yields

%



Source: Knight Frank, Macrobond

LEISURE

MARKET OVERVIEW

CONSUMERS

- Demand for leisure remains strong with consumers determined to treat themselves where possible. Hospitality & Leisure spend grew +9.1% in April according to Barclaycard data, with spend up across Eating and Drinking (+4.6%), and Bars, Pubs, & Clubs (+3.7%).

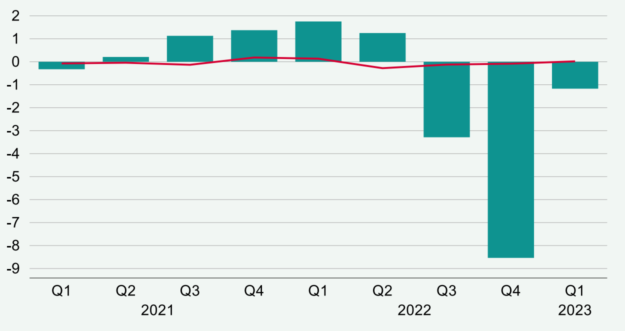
OCCUPIERS

- Q1 registered a net decline of -756 licensed hospitality premises. The decline is less than half that witnessed during Q4 2022 (-1,611 sites), indicating a marked slowdown in closures. Independent operators continue to suffer the most, experiencing a -0.9% decline in site numbers, versus a +0.3% growth in the managed sector.
- Prezzo was one of the few chain operators signalling any sign of major distress. However, closures announced are emblematic of its operational shortcomings (e.g. a legacy of over-expansion) rather than a barometer of wider economic malaise.
- In contrast, other operators have been seeking to bolster their existing portfolios as consumers increasingly value leisure and socialising. Gravity Active Entertainment appointed advisors to acquire new sites in dominant shopping centres and large mixed-use schemes to expand its e-kart, bowling, and urban golf concepts alongside F&B and live entertainment.

INVESTMENT

- Prime Leisure Park yields (7.50%) remained stable across Q1. Good Secondary Leisure Parks (9.00%) and Secondary Leisure Parks (10.00%) also held steady.
- Q1 leisure investment totalled £499m, marking a +29.3% increase on Q4 levels.
- JD Wetherspoons disposed of several assets during Q1 following an announcement it would offload 39 pubs. Earlier in the year it warned closures may be required as it faces £30m rise in operational costs. Sales included 65 North Road (Durham); 18 Foregate Street (Worcester), and 98-101 George Street (Hove).

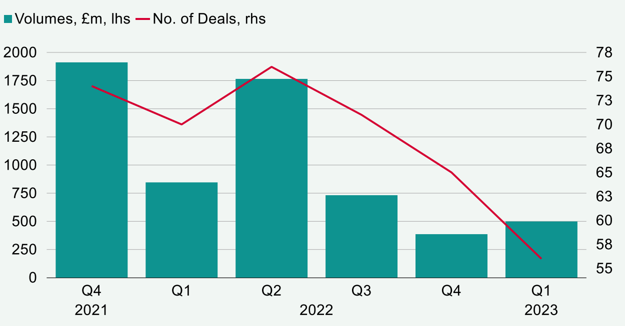
Leisure - Rental / Capital Value Growth



Source: MSCI, Macrobond

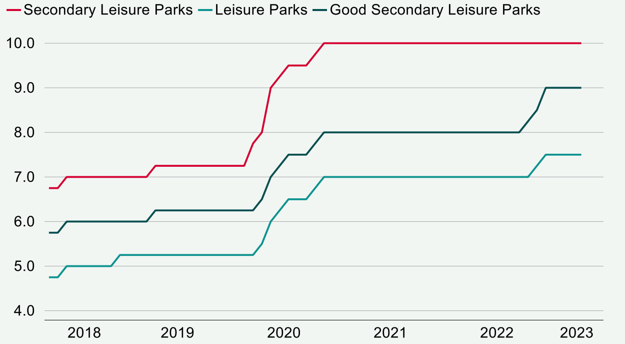
Leisure Investment Volumes

*includes all deals with leisure asset, excluding confidential deals



Source: Property Data, Macrobond

Leisure Yields



Source: Knight Frank, Macrobond

FOODSTORES

MARKET OVERVIEW

CONSUMERS

- Q1 Food sales grew +10.1% but volumes (-3.2%) remain impacted by inflation. Although food inflation is easing (April: 17.3%), figures remain in double digits and won't necessarily trickle through to lower prices for consumers anytime soon.
- Proportion of grocery sales made online continues to unwind, with consumers showing preference for in-store purchasing. Online sales accounted for 8.2% of all grocery sales in March, down -1.6% YoY.
- Consumers continue to trade down to cheaper 'own label' brands (+13.5%) to manage food bills, vs. branded sales (+4.4%) which are rising more slowly. Consumers are also 'bargain hunting' – averaging visits to at least three different grocers each month to obtain their best value, according to Kantar.

OCCUPIERS

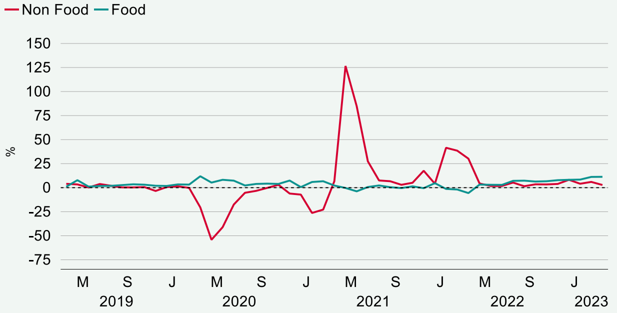
- Aldi (10.1%) and Lidl (7.6%) both achieved new record market shares over the latest 12-week period to April 16, 2023 according to Kantar. This is the first time Aldi's market share has surpassed 10%.
- The market remains highly competitive and the three leading retailers all saw market share movement during the same period. Tesco grew its market share by 3.1 ppts to 27.0%. Sainsbury's also grew share by 0.1 ppts to 14.9%. Asda lost 0.3 ppts, taking its share to 14.0%.

INVESTMENT

- Deal volumes registered £765m in Q1, a substantial increase on Q4 levels (£54m), and above the 5-year average.
- Supermarket Income REIT's purchase of a 25.5% stake in the SPR Portfolio, comprising freeholds of 26 Sainsbury's stores, for £196m from British Airways Pension Trustees made up a significant portion of Q1 investment volumes.
- Sainsbury's buy-back of 21 stores from the SPR portfolio also made up the bulk, totalling £430.9m. Supermarket Income REIT reported the investment in the SPR portfolio as 'highly accretive' and further evidence of 'long-term strength and value of UK grocery property'.

Food vs. Non-Food Retail Sales

Monthly change YoY

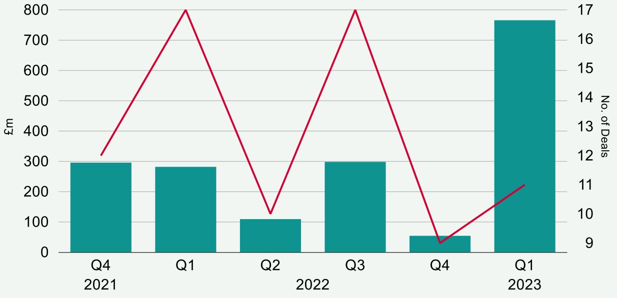


Source: ONS, Macrobond

Foodstore Investment Volumes*

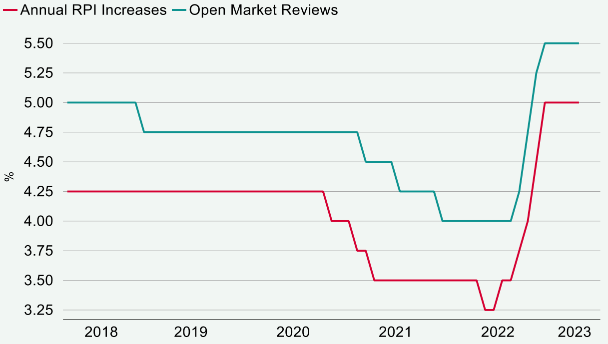
Last 6 quarters

*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

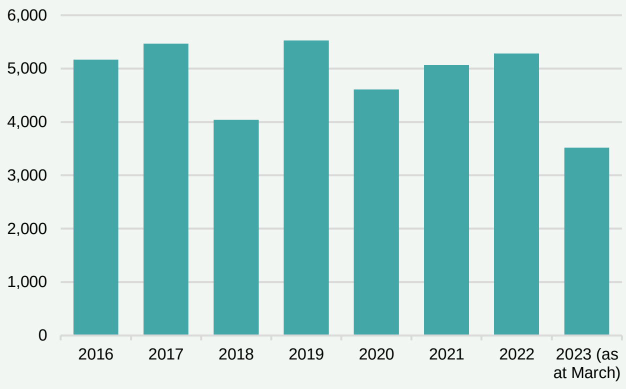
TRADING

- Operator occupancies currently sit in the late eighties with many of the larger corporates confirming recovery in occupancies back to pre-pandemic levels.
- Agency staff usage has fallen slightly from the 15% seen in the trading data of some homes. We are now seeing more normalised figure of sub 10% for agency costs as a percentage of staff costs.
- Despite this, staffing and utility costs remain a concern in terms of the biggest contributors to the inflationary pressures that operators will need to absorb.

SUPPLY

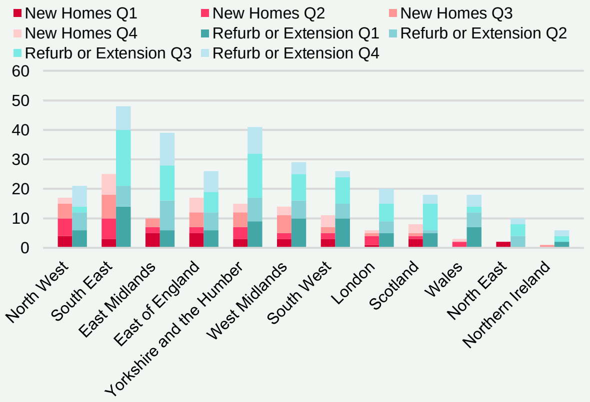
- Whilst 2022 saw a circa 15% fall in the completion of new build care homes, due to increased construction costs amongst other headwinds, the first quarter of 2023 presents more promising statistics with a significant level of completions, a likely benefit of overspill from 2022.
- 2022 saw circa 10,000 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.
- Many potential new beds are by way of mixed-use schemes, with the option for an on-site care setting, which may not reach build-out due to social and economic factors impacting feasibility.

New Home Completions



Source: Knight Frank Research

Schemes with Granted Planning



Data is as of March 2022
Source: Knight Frank Research

HEALTHCARE

INVESTMENT MARKET

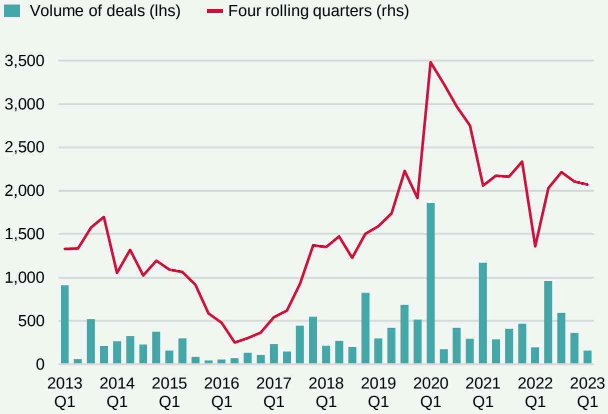
INVESTMENT

- Whilst 2022 closed up fairly strongly with investment transaction volume for the year at approximately £2.4bn, Q1 23 has been fairly slow with a number of key market players holding back in what seems to be an attempt to gauge pricing. We have however seen activity from a number of private investors.
- Prime care homes yields have softened however, remaining dependent on covenant strength.
- 2022 also experienced a dip in the share of transaction volume attributed to overseas capital. This is not owing to a lack of overseas demand, but more increased domestic demand eating into the overseas share, as REITs and private capital demonstrate more interest in the sector

FORWARD VIEW

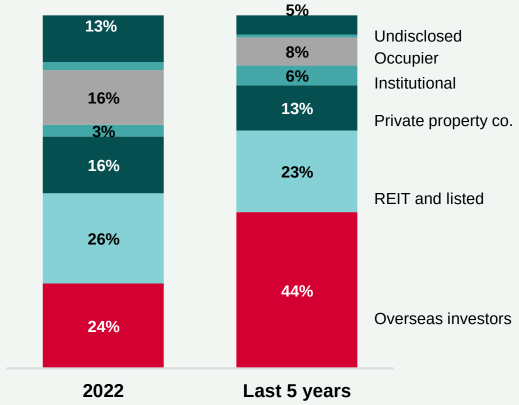
- The upgrading or repurposing of standing assets – for example, older, smaller and less fit-for-purpose buildings – may present a viable value-add strategy for both investors and operators.
- The matter of debt may not be as negative as the news suggests, due to a number of investors under fixed terms as well as hedged with conservative loan to values. Healthcare as a sector certainly sits in a less exposed position than more conventional commercial real estate sectors.
- Overall, the sector is well positioned with regards to demand, capital awaiting deployment and the underlying drivers that have contributed to the sector's consistent performance over the years.

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

- Taking into account the hotel market's seasonal patterns, hotel demand has remained stable and positive in the first quarter. This is despite a subdued January, caused in part by the national rail strikes and US winter storms.
- With m-m trading performance improving in Q1, March saw strong occupancy levels rise to over 74% in London and 71% in Regional UK. Q1-23 Occupancy in London was 23 basis points above the Omicron-impacted Q1-22, and Regional UK was ahead by 12 basis points.
- Q1 ADR growth of 9% was achieved in London versus Q1-22, and a 2.4% uplift achieved in Regional UK.
- Slower RevPAR recovery was recorded by Regional UK's top 12 cities, compared to the wider regional UK market, but with stronger growth in Total Revenue per available room, as higher occupancy levels supported growth in F&B revenues.
- A recovery in top-line performance has supported the recovery in profits compared to Q1-2022, but with rising cost pressures, profit margins are being squeezed. In Regional UK, GOPPAR remained 6% lower than Q1-2019, whilst GOPPAR in London was 14% lower. In Q1-2023, regional UK achieved a GOP margin of 19% (22% in Q1-2022) and London 32% (38% in Q1-2023).

OUTLOOK

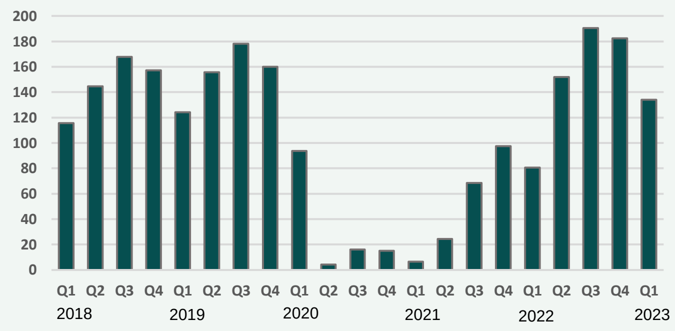
- Visit Britain are forecasting 35.1 million inbound visits for 2023, 86% of 2019 levels and 15% higher than 2022 total inbound visits. Whilst visits from European markets are forecast to recover quicker, long-haul visits are expected to rise to 11 million.
- Challenging operating conditions will continue to put margins under pressure. In April-2023 the National Living Wage increased to £10.42 per hour, an annual rise of 9.7%, whilst the Real Living Wage increased by 10.1% to £10.90 across the UK and £11.95 in London. Meanwhile utility costs remain high versus March-2022, but with costs PAR declining month-on-month since January.

SUPPLY

- We estimate that across the whole of the UK, some 320 hotels totalling approximately 33,500 rooms are currently being used to house asylum seekers and refugees or commissioned for use as social housing.

RevPAR in London

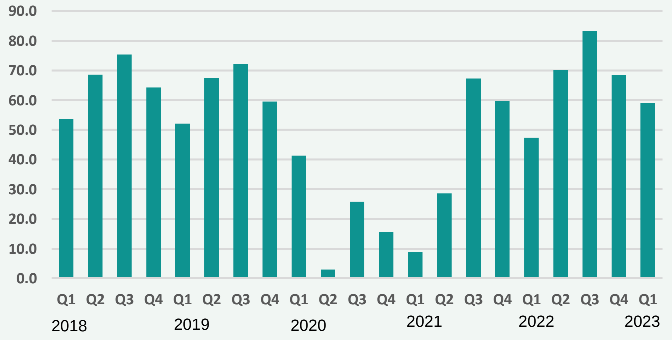
Quarterly, £



Source: HotStats

RevPAR in Regional UK

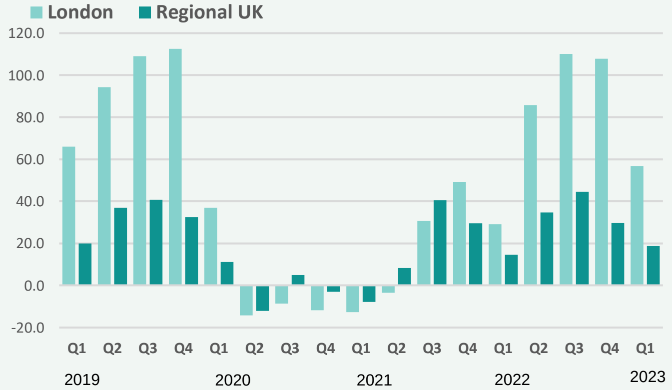
Quarterly, £



Source: HotStats

Gross Operating Profit PAR

Quarterly, £



Source: HotStats

HOTEL

TRANSACTIONAL MARKET

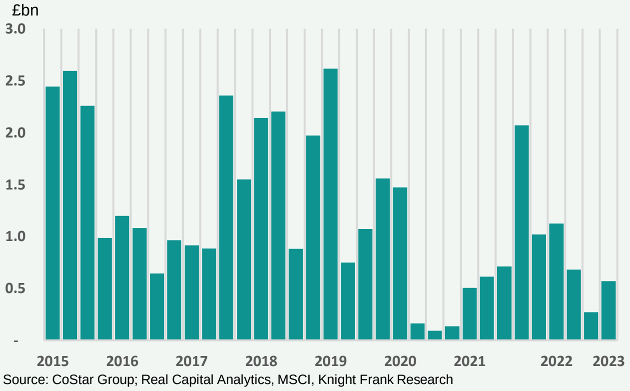
INVESTMENT

- After a muted end to 2022, transactional activity in Q1-2023 more than doubled to reach £0.5 billion, but with the deal volume remaining significantly below the five-year quarter average of £1.2 billion.
- The deals completed were almost exclusively single asset transactions, but with a 50:50 split between regional UK and London completed sales.
- UK corporate investors were the most active, accounting for over 40% of transactions, while UK institutional investors accounted for 22% of activity.
- The most active buyers were experienced hotel owners, be it focused hotel investment groups or corporate hotel owner operators, accounting for 55% of transactional activity.
- Major regional deals completed included The Fattal Group's acquisition of the Grand Hotel Brighton for £60 million and the £53 million acquisition by Pandox of The Queens Hotel in Leeds.
- The London hotel market rebounded strongly with four sizeable transactions taking place in Q1. The assets transacting included Firmdale's £55 million acquisition of The Covent Garden Hotel (seller CBRE Investment Management), Dalata Hotel Group's £44 million purchase of a newly built, 192-room hotel in Seven Sisters; and the £42 million sale of the Holiday Inn Regents Park Hotel, divested by CBRE Investment Management.

OUTLOOK

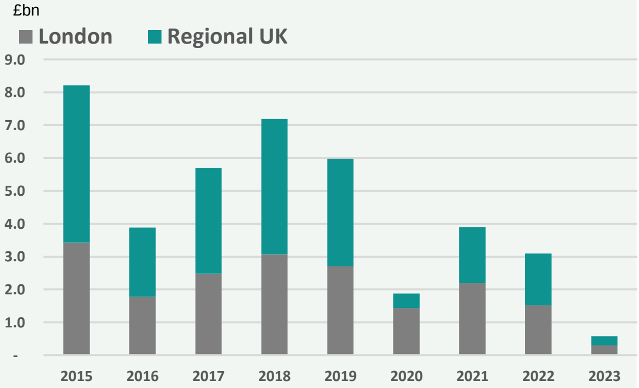
- There is continued optimism for the ongoing recovery in hotel transactional activity, with some big-ticket, quality assets currently being marketed for sale.
- Lender appetite in the hotel sector is expected to remain resilient. Albeit, those buyers with strong balance sheets are likely to be most active as debt markets continue to remain challenged.
- Lucrative home-office contracts are having a material structural impact on the UK hotel market. Whilst the reduction in hotel supply is supporting the sector's recovery, the dynamics of the investment market are also being impacted with far fewer distressed or forced sales currently taking place.

Investment volumes



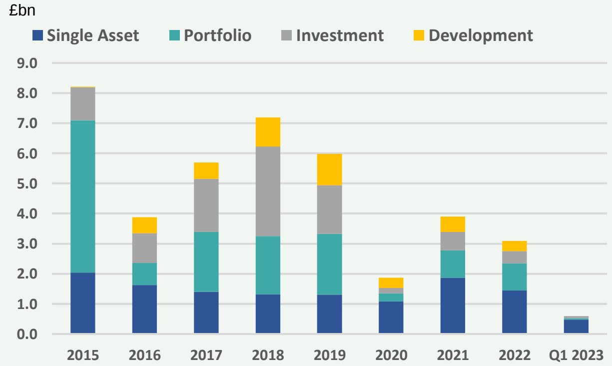
Source: CoStar Group; Real Capital Analytics, MSCI, Knight Frank Research

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 SCIENCES

MARKET OVERVIEW

SECTOR PERFORMANCE

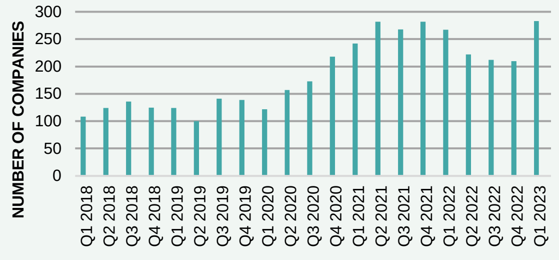
- Shifting macroeconomic conditions negatively impacted venture capital funding. Q1 2023 UK life sciences venture capital funding reached £587m which is a 28% decline q-q and a 33% decline y-y. Nonetheless, Q1 2023 venture funding was 6% above the 10-year average.
- Sub-sectors including drug discovery and advanced therapeutics continue to receive strong capital investment. Private equity funding is expected to increase going forward, along with M&A activity as venture capital firms are sitting on significant dry powder.
- Scientific and QA job vacancies trended in line with all industries, remaining effectively flat over the quarter, with a contraction of -0.5% over the three months to March 2023.
- Q1 2023 saw 283 new life sciences companies formed in the UK, the most of any quarter on record.
- The UK Government announced a series of positive measures to further support and grow the sector; large companies like Moderna, Brinton Pharmaceuticals and BioNTech invested in UK R&D infrastructure; and the UK's GMP (good manufacturing practice) manufacturing capacity was boosted with £277m of public and private investment via the Life Sciences Innovative Manufacturing Fund.
- The Genetic Technologies (precision breeding) act passed into law in England. This will enable the development and marketing of gene-edited crops and animals in England and could spur investment into this specialist area of life sciences.

OUTLOOK

- A more challenging funding environment has done little to dampen the entrepreneurial spirit within the sector with Q1 2023 bringing the formation of a record number of company incorporations. The Government also announced a number of initiatives which should further boost the sector's growth. As macroeconomic conditions improve, we anticipate higher levels of venture capital funding, albeit more in line with pre-pandemic levels.

UK life sciences company incorporations

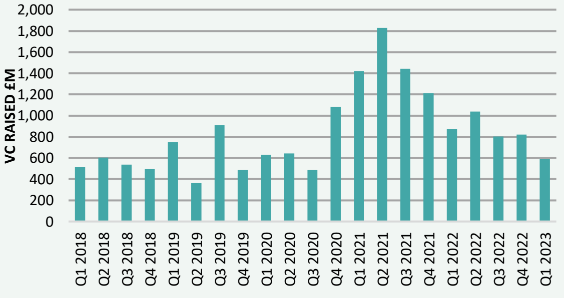
COMPANY INCORPORATIONS



Source: Fame and Knight Frank research. Data includes active companies only. BVD sector: Biotech and life sciences. Location analysis is based on registered address only. Sub market analysis is available upon request.

UK life sciences venture capital funding

VC FUNDING INTO UK LIFE SCIENCES COMPANIES £M



Source: PitchBook and Knight Frank research. HQ location UK, Completed deals only. Covers: Biopharma, MedTech and Digital health. Data as at 13/04/2023. Sub market analysis is available upon request
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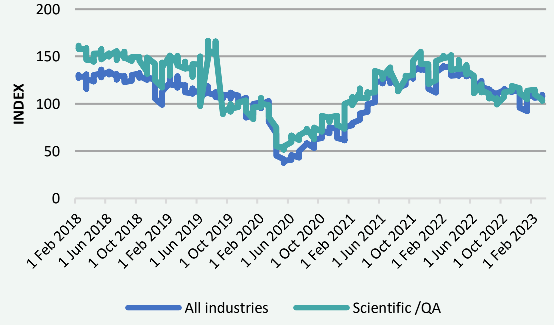
Vacancies for scientific and QA roles UK.

SCIENTIFIC & QA WEEKLY JOB ADVERTS: INDEX 100: AVERAGE FEBRUARY 2020



Source: Knight Frank, Adzuna

LIFE SCIENCES

MARKET OVERVIEW

INVESTMENT MARKET

- Q1 2023 life sciences investment volumes for the Golden Triangle (Oxfordshire, Cambridgeshire, and London) totalled £496.32m. This figure represents the highest first quarter investment total on record for the life sciences sector and the best quarter for investment since Q4 2021.
- Notable deals over the period include the JV between British Airways' New Airways Pensions Scheme, GIC and Reef Group to develop lab space at Tribeca, King's Cross. A GIC and Oaktree joint venture also purchased 17 Columbus Courtyard in Canary Wharf for c. £100m, demonstrating the diversity of capital seeking to deploy equity within the sector.
- London represented the largest share of investment activity in the Golden Triangle. This represents London's growing role as a hub for Europe's leading life sciences companies, particularly in the submarkets of King's Cross, White City and Canary Wharf where significant new developments to deliver Grade A lab and office space are either underway or have been recently completed.

OCCUPIER MARKET

- Oxford, Cambridge and London remain the epicentre of life sciences leasing activity. Q1 life sciences office and lab take-up in these three markets totalled 149,153 sq ft. London accounted for 66% of this activity. This represents a 127% increase in take-up compared to Q1 2022.
- Key deals include US-based New England Biolabs, a producer and supplier of enzymes, signing for its first overseas manufacturing and product development facility at a 30,000 sq ft unit at Milton Park in Oxfordshire. ADC Therapeutics, an oncology-focused biopharma company, also expanded its presence at the I-HUB in White City, taking an additional 12,000 sq ft. Notably, Moderna has also committed to the delivery of a c. 145,000 sq ft production facility at Harwell, subject to planning approval. We will add this into take-up once approval has been granted.
- Despite growing demand, take-up figures in the Golden Triangle are severely constrained by a lack of available space. In Cambridge there is currently demand for over 1m sq ft of lab space in the region but only c. 24,000 sq ft currently available. The current development pipeline indicates that this level of demand will not be met until at least 2025/26, with a similar supply and demand imbalance in London and Oxford.

AUTOMOTIVE

MARKET OVERVIEW

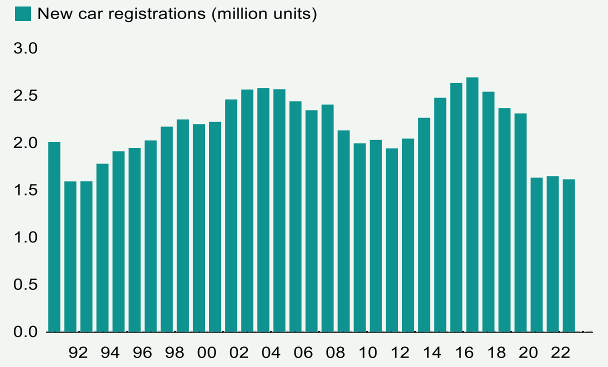
MARKET COMMENTARY

- 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 look to reduce their operating costs, which have come under scrutiny due to the recent elevated energy and transportation costs. Coupled with the 2023 business rates revaluation, this will ultimately further increase dealer pressure on bottom lines.
- The sector is having to reinvent itself once more as the population adjusts to the seemingly inevitable transfer to EVs in the coming decade, along with the associated infrastructure changes required to charge and service the vehicles. This will create opportunities for car retailers. However, the composite mechanics of the electric vehicle, alongside the adjustment to the 'agency' retail model, may present challenges to the traditional revenue streams.

REGISTRATIONS

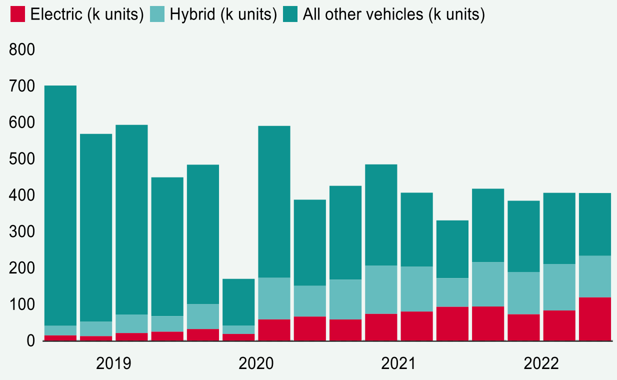
- The UK new car market recorded its ninth successive month of growth in April, with an 11.6% increase to reach 132,990 registrations, according to the latest figures from the Society of Motor Manufacturers and Traders (SMMT). The performance marks the best April since 2021's 141,583 units, but remains 17.4% down on 2019 volumes.
- As supply chain pressures have begun to ease, the overall market is now up 16.9% in the first four months – the best start to a year since the pandemic. This has led to an upward revision of the quarterly market outlook, the first positive revision since 2021, with 1.83 million new car registrations expected in 2023, up from 1.79 million anticipated in January.
- The sector is less optimistic about growth in demand for BEVs, downgrading their expected 2023 market share from 19.7% to 18.4%, with high energy costs and insufficient charging infrastructure anticipated to soften demand.

New car registrations



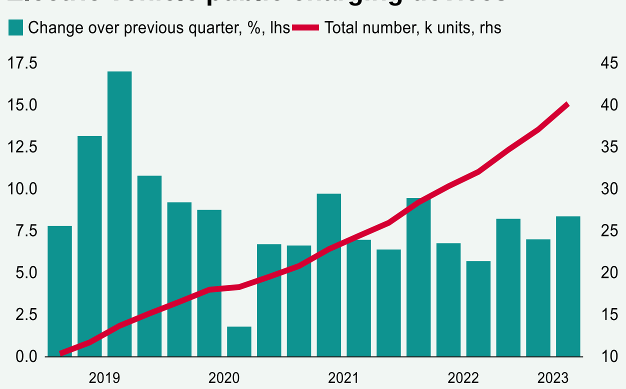
Source: Macrobond

New car registrations by fuel type



Source: Macrobond

Electric vehicle public charging devices



Source: Macrobond

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Automotive

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Capital Markets

Valuation & Advisory

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