*UK CRE Quarterly*
*November 2022*

# 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

- Global growth is set to moderate further in 2023. While the IMF's global GDP growth forecast for 2022 remained unchanged in October at +3.2%, it downgraded its 2023 forecast by -20bps from the July forecast to +2.7%.
- Economic growth expectations for the US have been downgraded in 2022. The IMF forecast US GDP to grow by +1.6%, down from +2.3% forecast in July. Meanwhile, the IMF revised its Euro Area GDP growth forecast higher for 2022, upgrading it from +2.6% in July to +3.1% in October. For 2023, the IMF expect the US and Euro Area economy to grow by +1.0% and +0.5%, respectively.
- Despite the moderating economic outlook, labour markets in many geographies remain tight with low levels of unemployment. US unemployment was 3.7% in October, up slightly from Septembers 29-month low of 3.5% but remaining below the long term average (LTA) unemployment of 5.7%. German unemployment remains unchanged for the third consecutive month at 5.5% in October, also below the 8.3% LTA.

### BUSINESS ACTIVITY

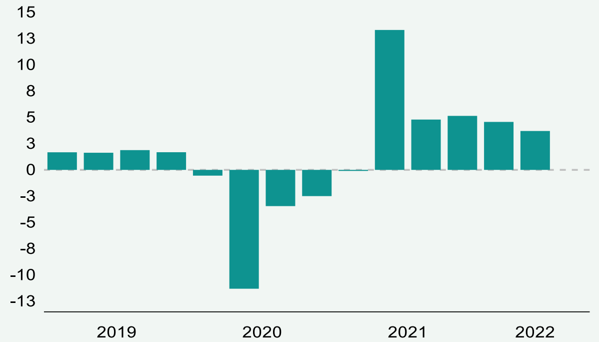
- Global business activity moderated in October. The global composite PMI contracted to 49.0, down from 49.6 in September and its slowest pace of growth since June 2020. The global composite PMI has been in contractionary territory (below 50) since July.
- Both manufacturing and services output growth moderated to their lowest levels since June 2020 at 49.4 and 49.2, respectively in October.

### INFLATION

- Globally, persistent and broadening inflation pressures remain, fuelled by tightening monetary conditions and cost-push factors including higher energy prices and continued supply chain constraints. Geo-political headwinds also remain a factor.
- Inflation in the US eased for the fourth month to 7.7% in October, from 8.2% in September. Meanwhile Euro Area inflation hit a record high of 10.7% in October 2022, up from 9.9% in September.

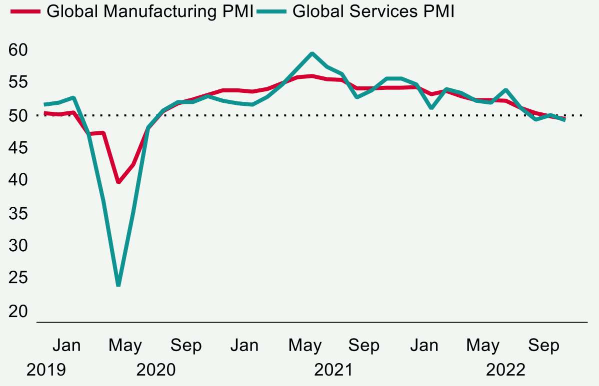
**Gross Domestic Product**

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




Source: Macrobond

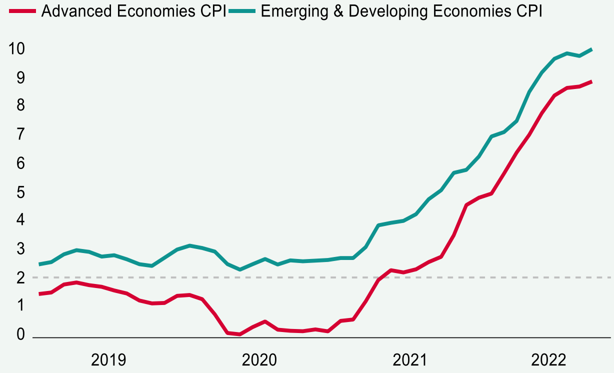
**Business Activity Index**




Source: Macrobond

**Inflation**

%




Source: Macrobond

# UK ECONOMY

## ECONOMIC UPDATE

### UK GDP OUTPUT

- The UK's economy contracted by -0.2% in Q3 2022, its first contraction in a year and a half, but better than market expectations of a -0.5% decline.
- The Bank of England (BoE) published two GDP growth scenarios, dependent on the interest rate path. In the first scenario, where the central bank lifts its interest rate to money market expectations of 5.25%, it expects the UK economy to enter into a recession in Q3 2022, which will last for eight successive quarters. In this scenario, the Bank of England forecast a peak-to-trough contraction of 2.9%.
- In the second scenario, where interest rates remain at the current level of 3.0%, the central bank still forecasts five quarters of contraction.
- Overall, the BoE forecast GDP to decline by -1.5% in 2023 and by -1.0% in 2024, attributable to higher energy prices and tighter financial conditions weighing on spending. However, Oxford Economics is more positive, with forecasts of a -0.69% contraction next year and growth of +1.75% in 2024.

### BUSINESS ACTIVITY

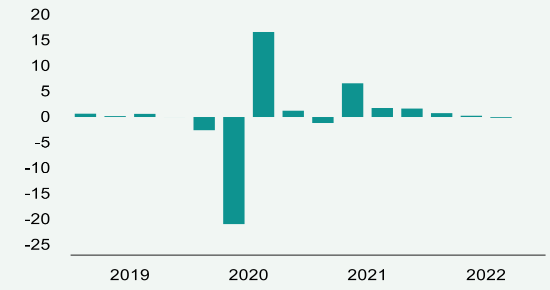
- UK business activity declined at its fastest pace since January 2021 in October. The UK Composite PMI fell to 48.2 in October, from 49.1 in September, remaining in contractionary territory (below 50).
- The UK Manufacturing and Services PMI declined to 46.2 and 48.8, respectively in October, from 48.4 and 50.0 in September.

### INFLATION

- High inflation is a global phenomenon to which the UK is not immune, albeit it is experiencing it on the sharp end of the global spectrum.
- UK inflation hit a 41-year high in October, accelerating to 11.1%, from 10.1% in the month prior.

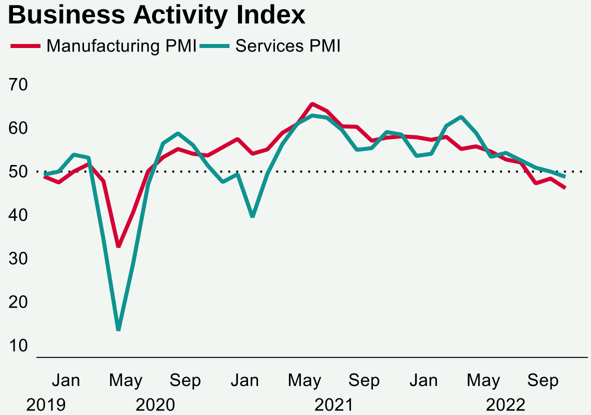
**Gross Domestic Product**

GDP growth, % change y/y, constant prices, seasonally adjusted, GBP



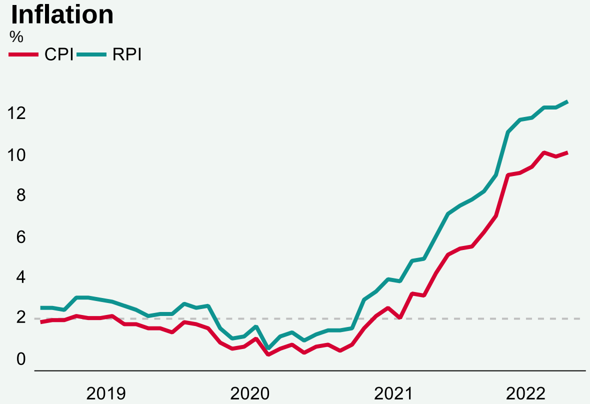

Source: Macrobond

**Business Activity Index**




Source: Macrobond

**Inflation**




Source: Macrobond

# Capital markets

## UK COMMERCIAL REAL ESTATE

**Contact:**

Antonia Haralambous

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# CAPITAL MARKETS

## COMMERCIAL REAL ESTATE

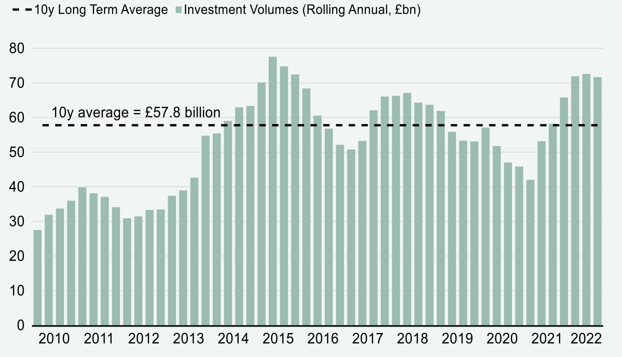
### INVESTMENT

- Q1 – Q3 UK commercial real estate (CRE) investment totalled £47.7 billion in 2022, 14% above investment in the first nine months of 2021, 36% above the Q1 – Q3 long term average and the strongest Q1 – Q3 period since 2018.
- However, investment into UK CRE has shown signs of moderation in Q3, with investment down by -6% to £13.3bn, which compares to £14.2bn in Q3 2021.
- The Specialist sectors were the most invested sectors in Q3, with £6.4bn or 48% of total investment, followed by Industrial and Offices with a 23% and 20% share, respectively. Retail had the lowest share of total investment at 9%.
- Cross-border investors contributed to 38% of Q3 2022 volumes, greater than their 20% share in Q3 2021 and 26% share recorded in Q3 2020.

### OUTLOOK

- Commercial real estate which offers one or more of; inflation hedge properties, growth potential, diversification benefits, income and / or relative stability, is expected to see strengthened interest from investors looking to achieve these aims.
- We expect investors to focus particularly on core, liquid assets and locations with attractive yields relative to the cost of debt, following either the movement in pricing or where yields were relatively attractive on a comparative basis to begin with, for example, London offices.
- Counter cyclical and lower beta real estate such as affordable housing, retirement living, retail discounters and food stores may see more focus. More traditional, liquid sectors as well as those which capture structural changes, from data centres to residential sectors, could also benefit.
- With elevated building costs, we might see increased refurbishments relative to new construction, as well as interest in more sustainable buildings which offer the prospect of lower energy running costs by tenants.

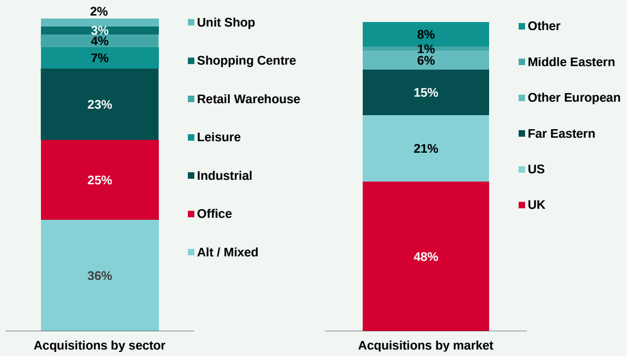
### Investment volumes




Source: Property Data

### Investment volume breakdown

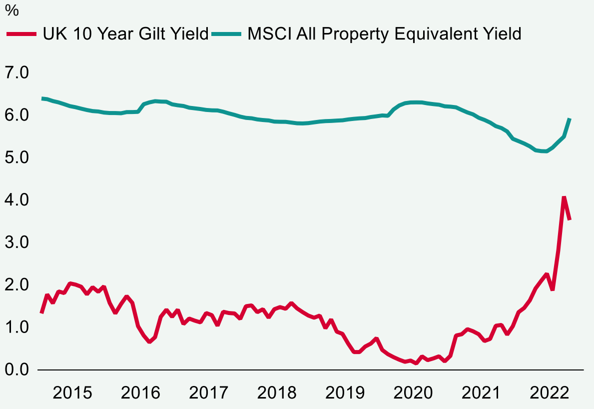
Percentage of YTD 2022 volume




Source: Property Data

### Property equivalent yield & gilt yield

%

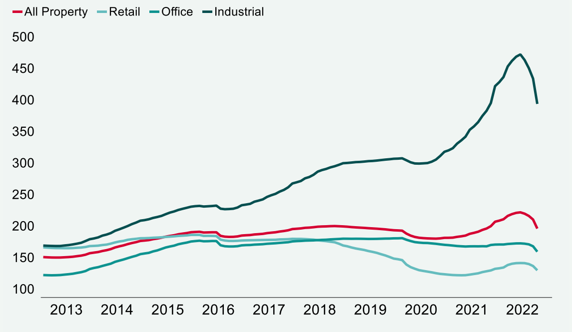



Source: Macrobond, MSCI

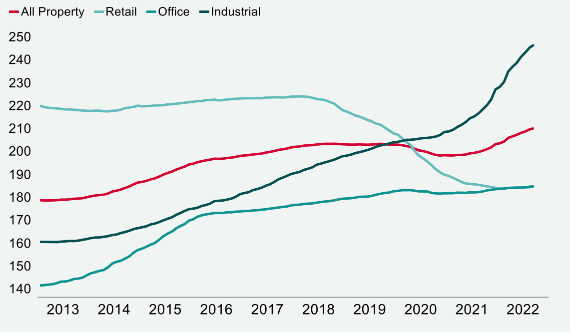
# CAPITAL MARKETS

## COMMERCIAL REAL ESTATE

**MSCI Capital Value Growth Index**
Jan 2013 – Oct 2022 (Dec 1986 = 100)

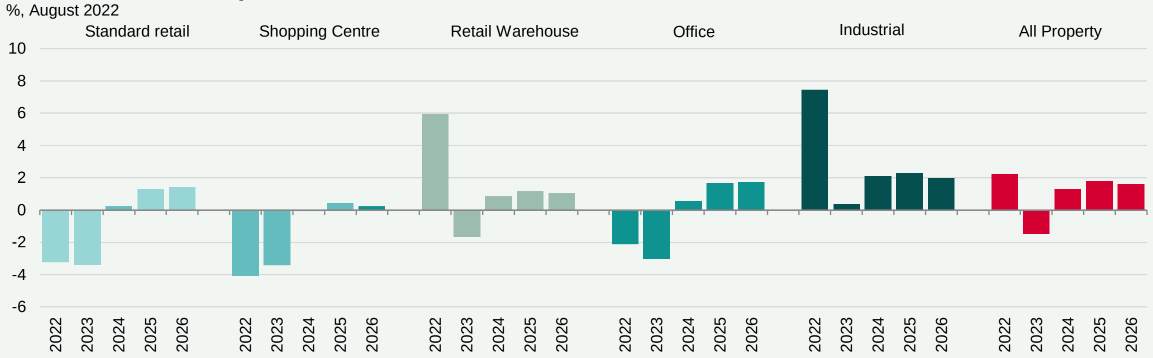



**MSCI Rental Value Growth Index**
Jan 2013 – Oct 2022 (Dec 1986 = 100)



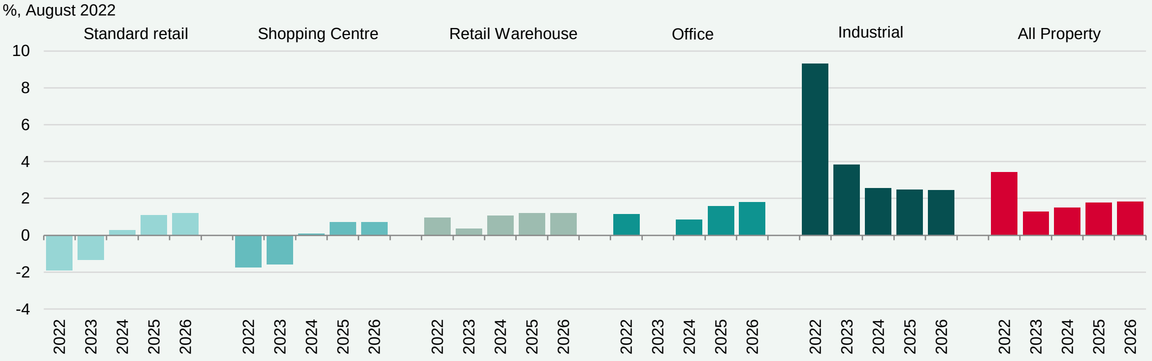

Source: Knight Frank, MSCI

**IPF Consensus Capital Value Growth Forecast**
%, August 2022




Source: Knight Frank, IPF

**IPF Consensus Rental Value Growth Forecast**
%, August 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

### RISE IN INVESTMENT VOLUMES BUT YIELDS RISING

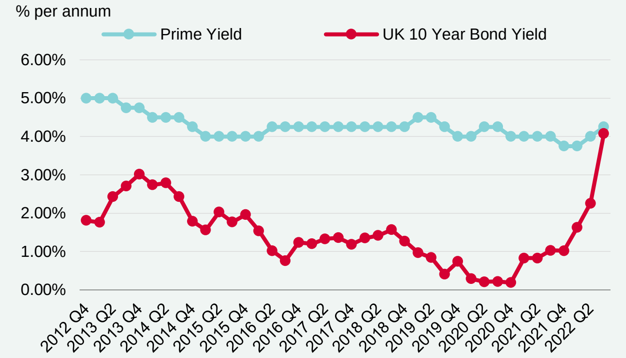
- Investment volumes rose by 33.2% from 2022 Q2 to £2.0bn and just below the long-term trend of £2.2bn. The largest deal of the quarter was the completion of 21 Moorfields, EC2 at £809m to Lendlease & Tcorp.

- We have raised prime yields by a further 25 basis points this quarter to 4.5% reflecting the greater sensitivity to higher financing costs for investors active in the City and Southbank market.

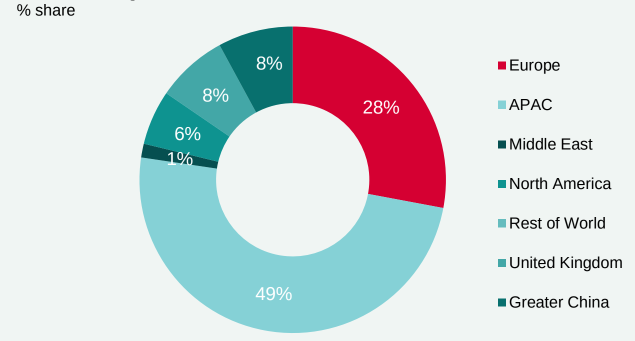
- Almost 50% of transactions were by investors from the Asia Pacific region where financing costs have also risen but have not been subjected to the same volatility as in Europe and North America.

- Moreover, capital targeted for investment in London offices remains high because of its liquidity and greater depth of investment grade product which reduce climate change risk in institutional portfolios.

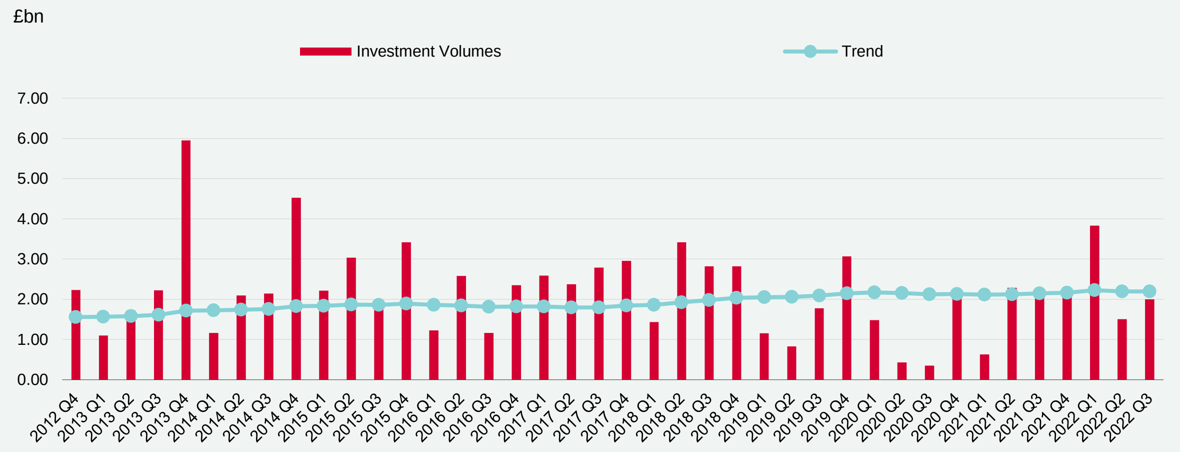
**City & Southbank – Prime Yields and 10-year Government Bond Yields**




**City & Southbank – Investment Volumes by Nationality**




**City & Southbank - Investment Volumes Relative to Trend**




Source: Knight Frank

# CITY OFFICES

## OCCUPATIONAL MARKET

### TAKE-UP MODERATES BUT PRIME LETTINGS REMAIN HIGH

- Take-up in City & Southbank totalled 1.18m sq ft in 2022 Q3. This is a fall on the previous quarter and 30% below the long-term average of 1.69m sq ft. Almost 60% of take-up was for new and refurbished space. During the last 12 months, there has been just over 6m sq ft of lettings which is less than 10% below the annual trend. The demand for prime buildings is underscored by 68% of all transactions during this period being for new and refurbished buildings.

- The top five transactions highlight continued activity from legal services firms for best in class buildings. In part to meet ESG criteria but also to accommodate larger workforces as the sector continues to grow. The largest deal of the quarter was by Addleshaw Goddard LLP at 41 Lothbury for 114,176sq ft at £75 per sq ft.

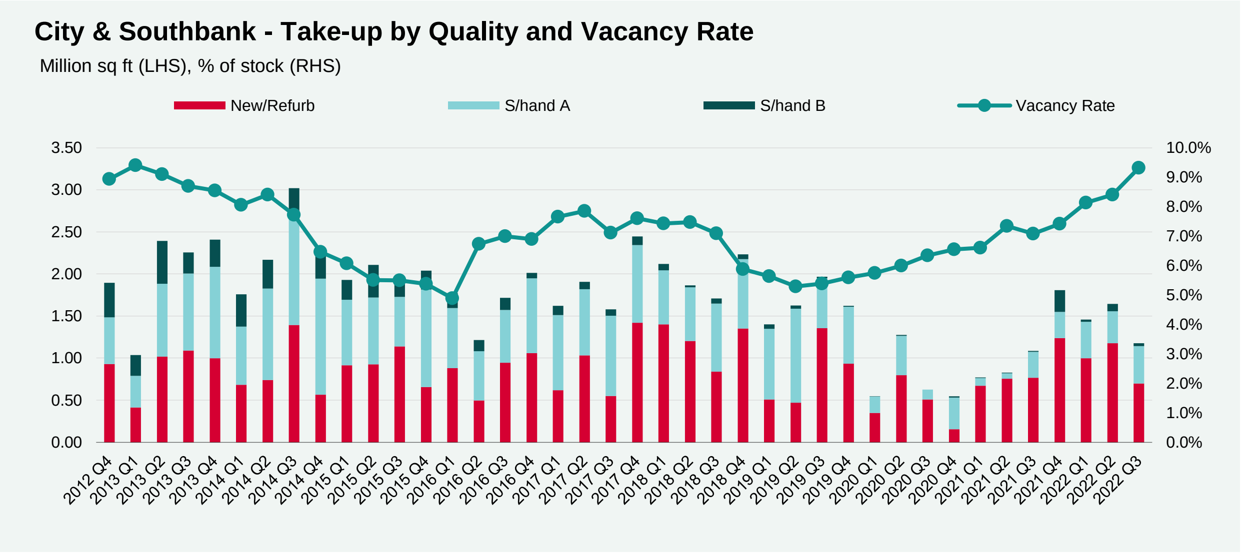
- Financials (20%) and professional services (37%) accounted for the majority of take-up in the City and Southbank last quarter. Active demand has increased by 20% during the quarter to 5.04m sq ft – almost 1m sq ft above the long-term trend. Financials and professional services account for almost 4m sq ft of active demand.

### AVAILABILITY CONTINUES TO RISE

- Availability has risen by 11.7% during the quarter and is currently at 12.48m sq ft. This is in part driven by imminent completions in the next six months with schemes like Arbor, Northcliffe, The Rowe, 8 Bishopsgate and EDGE London all due to complete by 2023 Q1. In total we can expect 1.6m sq ft of completions in the beginning of next year.

- There is currently 7.3m sq ft of speculative schemes under construction and expected to complete by 2026. Current levels of prime take-up considerably exceed the existing and future supply of prime buildings in the City and Southbank market. Our analysis shows a shortfall of 5.8m sq ft of new and refurbished buildings by 2026.

- We have maintained headline prime rents at the same level as in the previous quarter due to the moderation in take-up and rise in availability.




Source: Knight Frank

# WEST END OFFICES

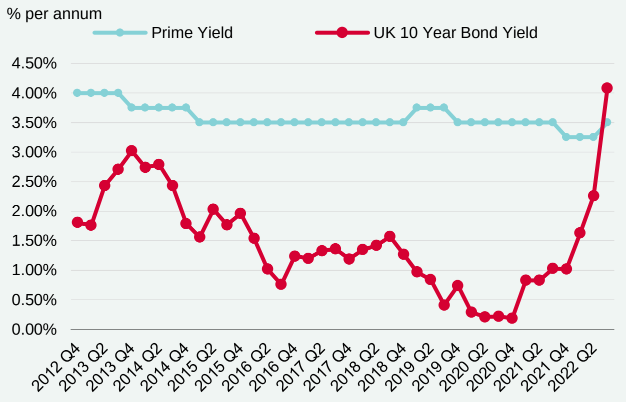
## INVESTMENT MARKET

### DEBT NO LONGER ACCRETIVE TO INCOME

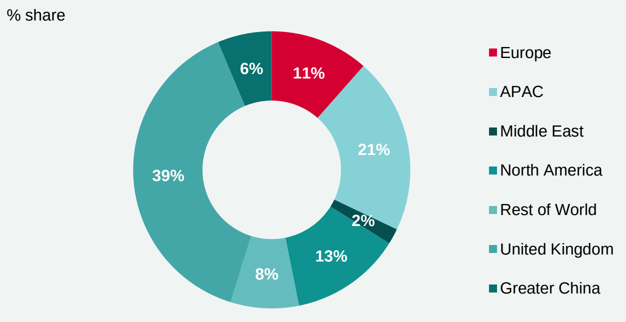
- Over the quarter there has been turnover of £1.30bn which is below the long-term average of £1.46bn. Demand remains strong for prime buildings with long and secure income streams particularly as the constrained development pipeline increases the appeal of West End offices as an inflation hedge. Nevertheless, the normalisation of interest rates impacts the pricing of all risky assets and as a result we have raised prime yields by 25 basis points to 3.50%.

- Transaction volumes were dominated by UK investors (39%) managing local and international investment mandates. Institutional investors were the largest investor type following £340m of completed transactions during the quarter. This was the highest level of investment from this group since 2020 Q4 and the second highest level of institutional investment in the West End since 2015 Q4.

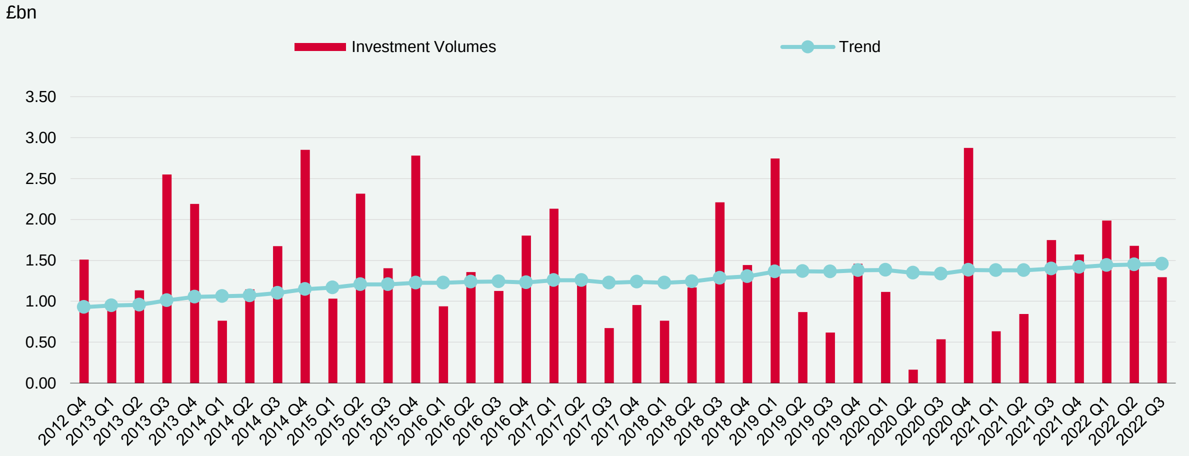
**West End – Prime Yields and 10-year Government Bond Yields**




**West End– Investment Volumes by Nationality**




**West End - Investment Volumes Relative to Trend**




Source: Knight Frank

# WEST END OFFICES

## OCCUPATIONAL MARKET

### CONSECUTIVE QUARTER OF ABOVE TREND TAKE-UP

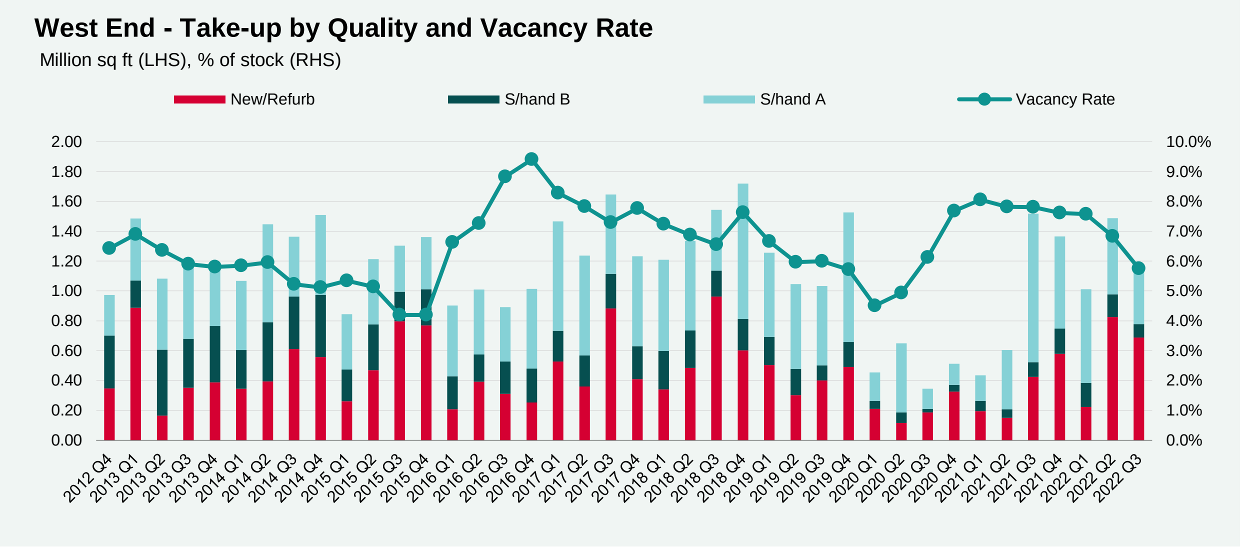
- Although quarterly take-up fell in 2022 Q3 by 21.3%, lettings activity of 1.17m sq ft represents a second consecutive quarter of above trend take-up. Moreover, there has been 5.03m sq ft of take-up in the last 12 months which is 12.1% above the annual long-term trend. The occupier drive to better quality buildings is very evident in the West End with almost 59% of lettings for new and refurbished buildings but the lack of development completions in recent years acts as a constraint to higher take-up of prime buildings. As a result, the lettings market for good quality secondhand grade A buildings continues to be a vital part of the market.
- The sector most prevalent have been financial and business services – a trend reinforced by Blackstone's c.230, 000 sq ft pre-let of a new European headquarters at Lansdowne House, Berkely Square. Almost half of all lettings activity in the West End was from financial services firms.

### PRIME AVAILABILITY FALLING IN THE WEST END

- Available space in the West End has remained at a premium this quarter, falling 15.6% to a total of 5.21m sq ft. This figure is 24.8% below the same time last year and has fallen just under the long-term average of 5.25m sq ft. As a result, the vacancy rate has dropped to 5.7%, falling over 1% in the last three months.

### FUTURE SUPPLY REMAINS MODEST

- There is 5.64m sq ft under construction across the West End completing by 2025 of which 1.39m sq ft is pre-let. During the quarter, 0.15m sq ft of speculative space was completed. New starts total c.0.5m sq ft across five schemes. Our analysis of net prime availability suggests a shortfall of just over 2m sq ft by 2026.
- The lack of good quality flexible floorspace has created rental tension in a number of West End submarkets and as a result we have raised prime rents by £2.50 per sq ft in Paddington (£80 per sq ft) and the West End Core (£125 per sq ft). Rent free periods remain unchanged at c.24 months for a 10 year lease.




Source: Knight Frank

# DOCKLAND OFFICES

## OCCUPATIONAL MARKET

### A BIG QUARTER FOR TAKE-UP

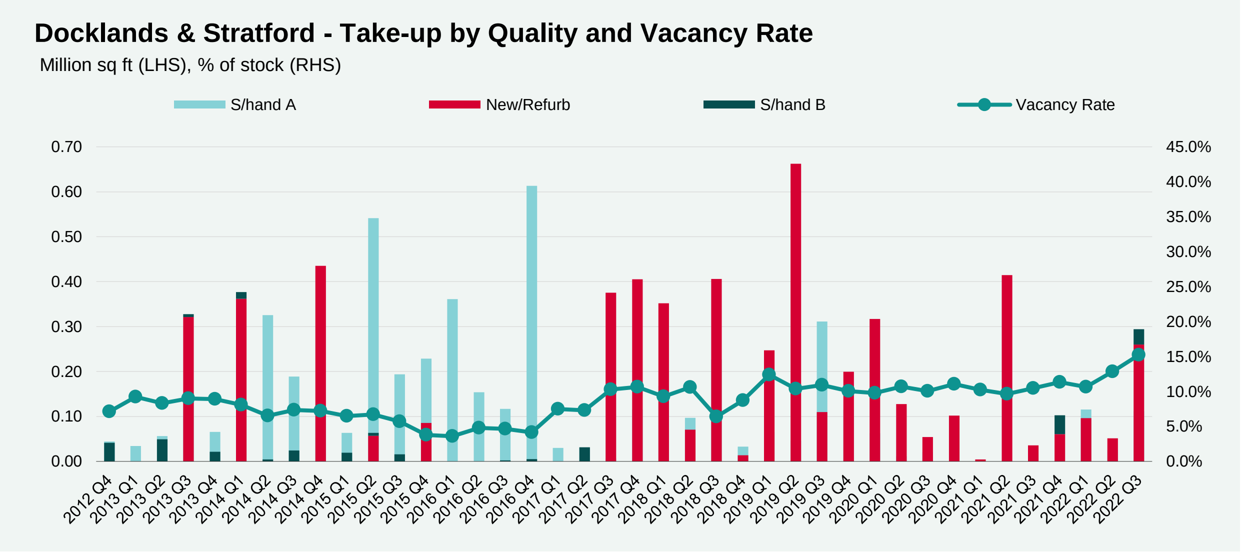
- Take-up in Docklands and Stratford was 300,962 sq ft in 2022 Q3, rising 420% compared with the previous quarter. This quarter-on-quarter increase saw take-up rise above the 10-year average of 235,000 sq ft. During the last 12 months, there has been 600,000 sq ft of transactions which is the highest four quarter total since 2020 Q3.
- Take-up was driven by financial services which accounted for 40% of all lettings. Professional services and education transacted around 20% each of the activity in the market demonstrating increasing diversity in the occupier base this quarter. New and refurbished take-up accounted for 56% of take-up, while 43% was on space greater than 40,000 sq ft.

### AVAILABILITY TRENDING UP

- Availability in the Docklands and Stratford market has risen by almost 50% to 3.63m sq ft in the last 12 months. Just under 49% of available space is new and refurbished with almost 1m sq ft contained in five buildings. The vacancy rate has risen to 15.2% which compares to a trend rate of 8.7%.
- There is 758,000 sq ft under construction across two schemes at YY London and The Turing Building, which complete by 2024 Q2. Of these developments, currently all space is being built speculatively.

### PRIME RENTS RISE FOR A SECOND SUCCESSIVE QUARTER

- Recent transactions in Canary Wharf have been above the prevailing benchmark prime rent in the submarket. Almost 90% of deals transacted above the existing prime rent of £52.50 per sq ft. The most significant deals included Citi Bank, taking up 94,000 sq ft at 40 Bank Street, while Boston Consulting Group leasing 50,000 sq ft at Cargo serves as a benchmark for prime space in the market. Incentives in the area have also decreased, moving from 30 months to 27-30 months on a typical 10-year lease.




Source: Knight Frank

# SOUTH EAST OFFICES

## INVESTMENT MARKET

### INVESTORS PRESS AHEAD DESPITE WIDER TURMOIL

- Investment volumes in the third quarter totalled £652m across 23 deals, 15% above the long-term average by volume. Supporting performance in Q3 was continued interest in Oxford and Cambridge, with the two cities accounting for 56% of investment turnover.
- The largest transaction of the quarter was the acquisition of three assets at Cambridge Science Park by Brockton Everlast Inc from TusPark*. The office buildings are held on a long-leasehold of around 200 years from Trinity College, are long-let, office-orientated properties.

*Exchanged in Q3, completed in Q4.

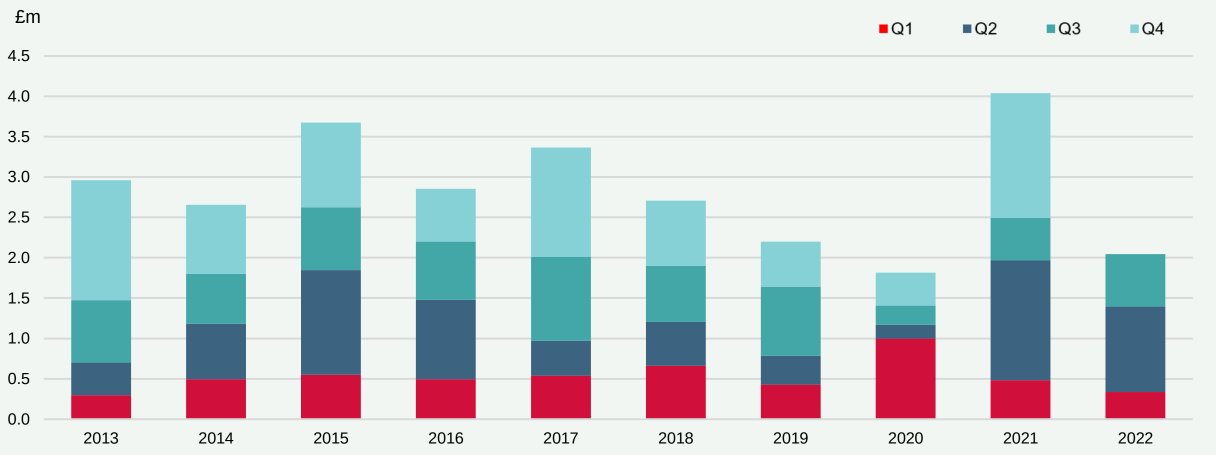
### INTERNATIONAL BUYERS RETAIN AN APPETITE FOR SOUTH EAST ASSETS

- Overseas buyers continue to target opportunities in the South East partly supported by the weakening pound. International capital accounted for 60% of investment volumes during the third quarter and accounts for 55% of capital committed during 2022. Significantly, larger lot sizes have been the principal target. Over the past 24 months, overseas buyers have been responsible for 17 of 28 transactions over £50m.

### DISRUPTION LEADS TO YIELD SHIFT

- In Q3, turbulence within domestic and global capital markets filtered through to market pricing. Prime office yields in the South East moved out to 5.75% during the quarter, responding to the sharp rise in swap rates and the erosion of the gap between UK gilts and office yields. The escalating cost of debt in particular has meant that core-plus buyers took an increasingly cautious approach. Although capital markets have since stabilised in part, the geopolitical landscape remains challenging, meaning investment volumes could be held back moving into the final quarter of the year.

**Investment volumes**




Source: Knight Frank

# SOUTH EAST OFFICES

## OCCUPATIONAL MARKET

### DEAL NUMBERS UP, TAKE-UP VOLUMES DOWN

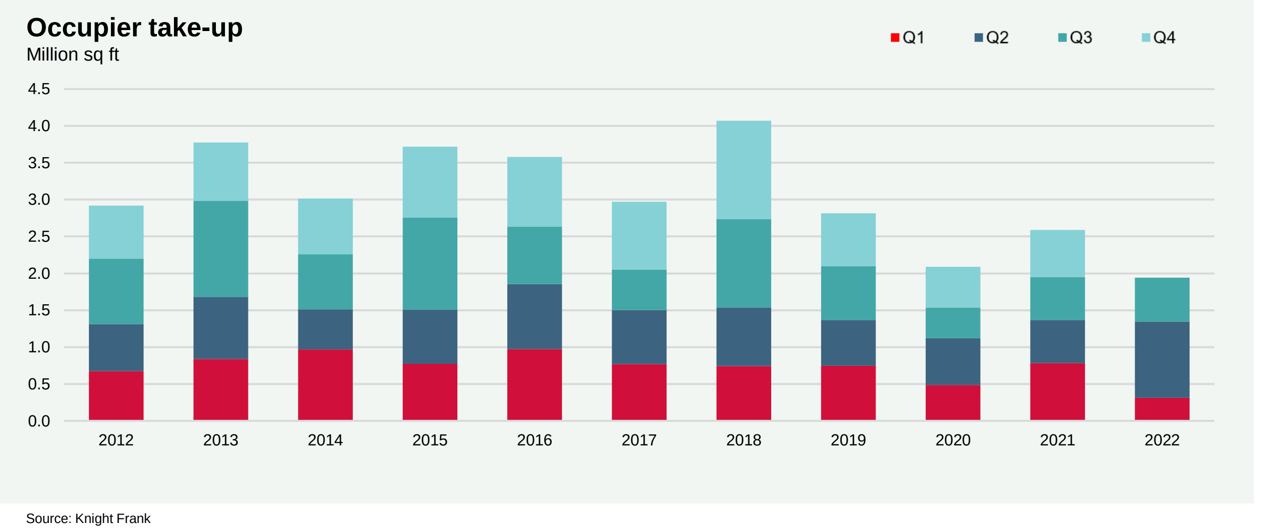
- In the occupational market, leasing levels proved respectable but not exceptional. Overall, take-up in the defined South East market reached 591,000 sq ft, below the long-term quarterly average but the highest Q3 total since 2019. Although larger scale transactions were few during the third quarter, take-up was supported by a high deal count. In Q3, 71 occupier transactions completed, well ahead of the long-term quarterly average of 52.
- As year-end approaches, leasing volumes for 2022 have reached 1.95m sq ft, almost identical to the total recorded at the equivalent juncture in 2021. For reference, leasing volumes in 2021 reached 2.59m sq ft by year-end. Notably in 2022 however, active demand levels as at September 30th were ahead when compared to September in 2021, raising the potential for a strong final quarter. Predictions of a UK recession though may temper occupier appetite, with lease events expected to be the main driver of any activity.

### OCCUPIERS TARGET CAMBRIDGE

- Outside the South East perimeter, Cambridge was the most active market in Q3. During the quarter, nine occupier transactions completed totalling 118,000 sq ft. This was the highest total of any centre studied in the report and the highest number in Cambridge specifically for three years.
- Prime rent in Cambridge has reflected the high level of occupier demand. Typical rent for prime office buildings in the city centre was £55 per sq ft as at the end of Q3 2022. For lab enabled space, prime rent is higher at £59.50 per sq ft. The levels reflect an uplift of 11% over the past 12 months, meaning Cambridge is one of the strongest locations for rental growth currently.

### BEST QUALITY SUPPLY FALLING

- Vacancy again remained relatively unchanged over the quarter at 7.4%, just above the long-term trend. Notably, the availability of New & Grade A space continued to fall. At quarter end, the vacancy rate related to New and Grade A space had dipped to 4.6%, the lowest level since 2019.
- Moving forward, the development pipeline offers little respite for those targeting new space. At quarter end, 1.8m sq ft of speculative space was under construction and due for delivery before the end of 2024. Beyond the next 24 months though, construction starts are likely to be scarce, with rising debt and construction costs now impacting developer appetite. Even so, the tightening supply environment is creating isolated opportunity. Locations of particularly low supply and strong transport links and amenity are expected to record rents over £40 per sq ft in the coming months, meaning developers could capitalise on market imbalance.




Source: Knight Frank

# UK CITIES OFFICES

## INVESTMENT MARKET

### INVESTORS PAUSE FOR THOUGHT

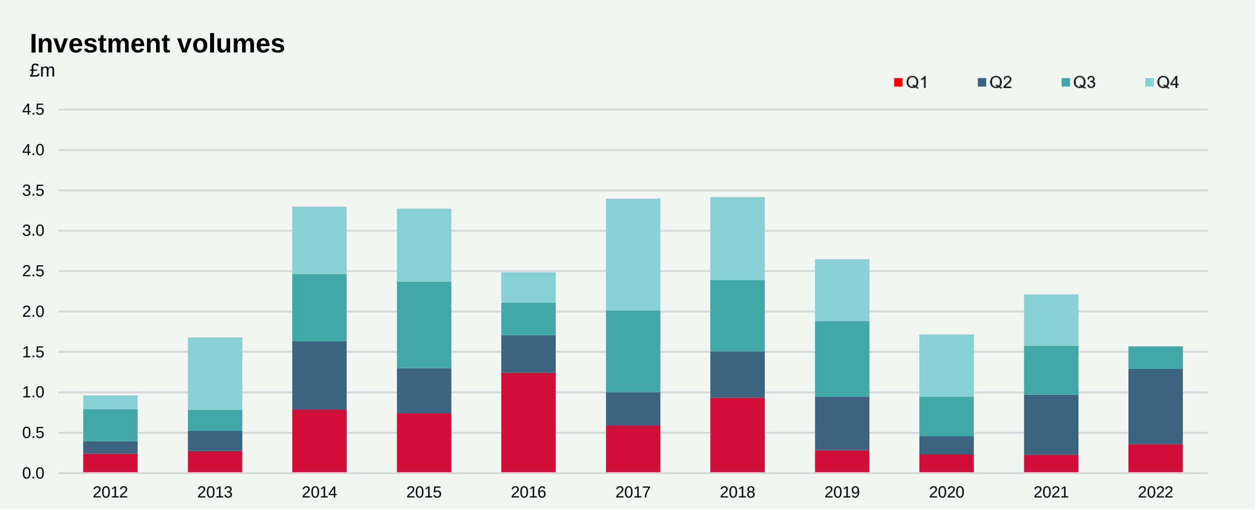
- Amid turmoil across the political landscape and within the capital markets, investment activity paused in the third quarter. Investment volumes for the UK cities reached £278m in Q3 2022, well below the long-term quarterly average.
- Even so, the investment total for the year presents a more positive picture. Investment volumes as at Q3 were £1.5bn, on par with the same juncture in 2021 and 60% ahead on 2020.

### UK BUYERS UNDERPIN ACTIVITY IN 2022

- The largest investment deal of Q3 was the £105m funding of First Street in Manchester by Pension Insurance Corporation (PIC). The 130,000 sq ft office building is let to the Government Property Agency on a 25-year lease and will complete construction in 2025. The deal is PIC's second in Manchester in the space of two years, after the investor inked a £130m forward funding deal for Muse Developments' New Victoria build-to-rent scheme in September 2020.
- The PIC deal examples greater activity from UK buyers in 2022. As at Q3, UK money accounts for 58% of investment turnover committed during the year. The speedier rate of return to the office in the regional markets has proved influential, with the regional markets also offering a favourable price differential compared with London and the South East.
- Overseas interest hasn't disappeared. Foreign capital accounts for 42% of investment in 2022 with overseas buyers behind the two largest acquisitions of 2022, demonstrating the depth of investor interest. Onward, the favourable position of sterling will only further galvanise overseas buyer interest.

### PRICE DISCOVERY BEGINS

- In response to the unsettled market conditions, prime office yields moved out by 50-75bps across the major UK regional cities. This shift is consistent with the other major office markets of the UK, with the weaker economic outlook undermining investor sentiment. The capital markets have calmed in recent weeks, although transactions volumes and pricing expectations are expected to remain relatively muted in the final quarter of 2022, as the market enters 'price discovery' mode.




Source: Knight Frank

# UK CITIES OFFICES

## OCCUPATIONAL MARKET

### DEAL RATE RISES IN Q3

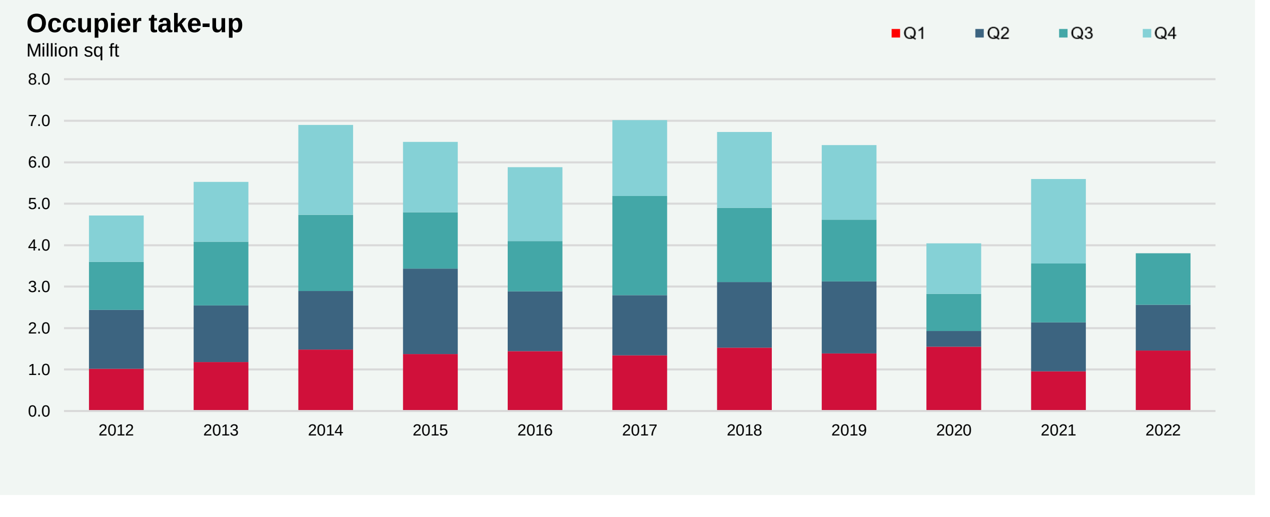
- Take-up across the UK cities reached 1.25m sq ft in Q3 2022, a rise of 13% when compared to the previous quarter. During the quarter 278 were completed, well above both the 5-year (266) and 10-year (244) averages.
- With just 3 months to year-end, total take-up across the regional cities has reached 3.8m sq ft. Although this total is 5% below the 5-year annual average, it does represent the second consecutive year-on-year increase across the UK Cities.

### MANCHESTER AND BIRMINGHAM STAND OUT

- In Q3, Manchester and Birmingham were the only regional cities to register take-up above the respective quarterly averages. Underpinned by Goldman Sachs taking 110,000 sq ft at Centenary Square, take-up in Birmingham reached 189,500 sq ft during the quarter, 2% ahead of the long-term trend. In Manchester, take-up was 328,761 sq ft, 7% above the 10-year quarterly average. Most notable in Manchester in 2022 has been the high deal count. As at the end of Q3 2022, 178 deals have completed, well ahead of the 141 registered by the stage in 2021 and ahead of the 5-year average for the Q1-Q3 period.

### SUPPLY BEGINNING TO EDGE UP

- Grade A supply across the regional cities registered further increase in Q3, reaching a collective 3.7m sq ft at quarter end. The completion of development work, either refurbishment or new build is the principal reason for the rise. With a sustained occupier focus on securing the best quality space, time on market is expected to be short.
- Onward, the development pipeline consists of 5.4m sq ft of office space showing as under construction. Of this total 3.7m sq ft is speculative with completion within the next 36 months.




Source: Knight Frank

# Industrial & Distribution

## INVESTMENT AND OCCUPATIONAL MARKETS

**Contact:**

Deirdre O'Reilly

# INDUSTRIAL & DISTRIBUTION

## INVESTMENT MARKET

### MARKET OVERVIEW

- Annual capital growth fell month-on-month, from 23.2% in the year to August to 15.4% in the year to September.
- Annual total return also fell sharply to 19.6% in September, down from 27.7% in August and a peak of 43.0% in April 2022.
- Though returns for industrial and logistics assets are coming under pressure, they continue to offer a premium over other asset classes. Returns have consistently outstripped other property sectors, over the past one, three, and five-year horizons. They have also outperformed equities (FTSE 100).

### INVESTMENT

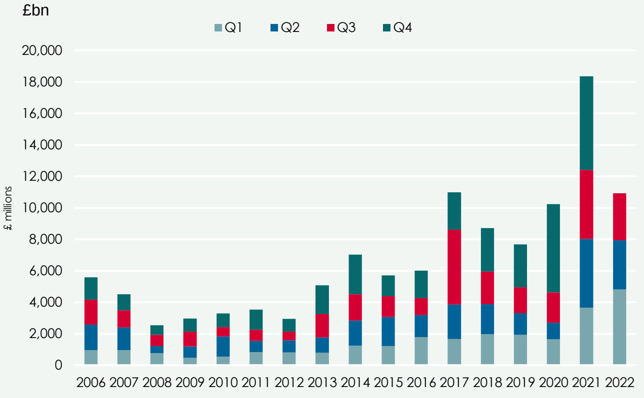
- Investment figures for Q3 stand at £3.0 billion, bringing the year to date (YTD) total to £10.9 billion. This is 12% behind the level recorded at the end of Q3 last year, when a record £12.4 billion transacted YTD.
- The largest investment deal in Q3 was the sale of Project George to Singaporean sovereign wealth fund, GIC Real Estate, by Northwood Investors for £425 million / NIY 4.50%. The portfolio includes c.3.25 million sq ft of industrial space across the North East region. Another Q3 deal which demonstrated some repricing included investment manager Barings exchanging the Zeus Portfolio, a portfolio of prime logistics assets for £234 million, representing a yield of 3.5%. Though a keen yield, this represented a discount on the original marketed price of £250 million. US investors continue to be the largest source of foreign capital, while liability-driven pension funds are having to sell off assets to de-risk and reduce their exposure to real estate. On the buyer side, well-capitalised investors including sector specialists can take advantage of new opportunities as the market shifts.

### YIELD TONE

- Prime Distribution / Warehousing with 15-year income on open market rent reviews were at 4.00%-4.25% at the end of Q3 2022. However, Knight Frank's yield guide reported a 75 basis point rise across most prime yields in November. Rising debt costs continue to put upward pressure on prime yields.
- For SE Estates (excl. London and Heathrow), yields were at 4.00% at end-Q3 2022, though these too have softened and are now 4.50-5.00% (November 2022).

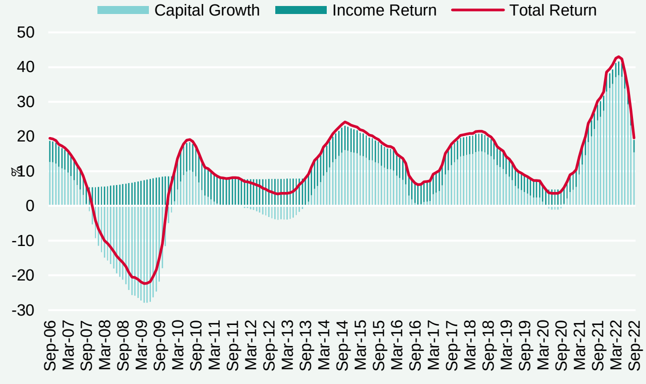
**Investment volumes**

£bn



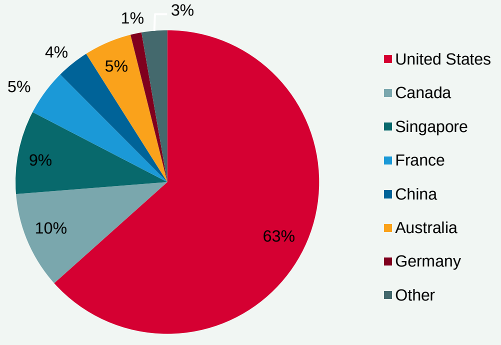

**Total return**

Annualized (all assets)




**Origin of capital**

YTD 2022, %



# INDUSTRIAL & DISTRIBUTION

## OCCUPATIONAL MARKET

### MARKET OVERVIEW

- Average rents for UK Industrial continue to grow, though the rate of growth slowed in September, with 12.9% annual growth, down from 13.2% in the year to August 2022 (Source: MSCI).
- While the occupier market remains robust, the impacts of rising yields and interest rates are not confined to the investment markets. Liquidity reduction and tightening credit conditions will amplify pockets of stress in the occupier market and the impacts of this will be compounded as growth slows.
- Despite some headwinds, the logistics sector is still displaying strong characteristics. High development and funding costs are stymying the supply of new assets to the market, while demand for space continues to drive rents up and vacancies down. Speculative development has risen over the course of 2022 so far, however, new space coming to market has been met by strong occupier demand, with built-to-suit and speculative developments dominating the take up figures.

### TAKE UP

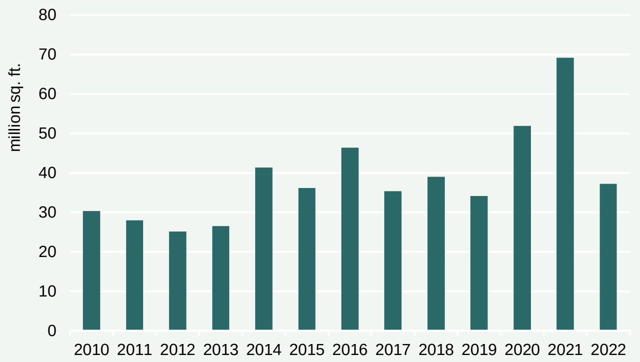
- Take up for the third quarter totalled 11 million sq ft (units over 50,000 sq ft), bringing the total for the year to date to 37.2 million sq ft. Q3 take up is significantly below last year's record of 21 million sq ft taken up in Q3 2021. Despite this, the Q3 2022 total is 7% above the long-term average.

### SUPPLY

- Availability remains very low. At the end of Q3 2022, there was just 32.8 million sq ft of space (units over 50,000 sq ft), less than half of the annual take up recorded in 2021. Of this available space, just 5.7 million sq ft is in new units. The majority is in second hand units which may not meet occupier requirements, though the volume of second hand units available has also declined.
- The UK industrial and logistics vacancy rate is currently 3.1%, down from 3.4% recorded in Q3 2021. Low vacancy and limited availability continue to impact the occupier market.

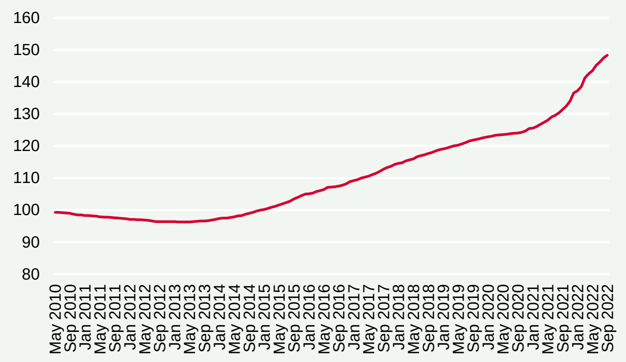
**Take up**

Units over 50k sq. ft.



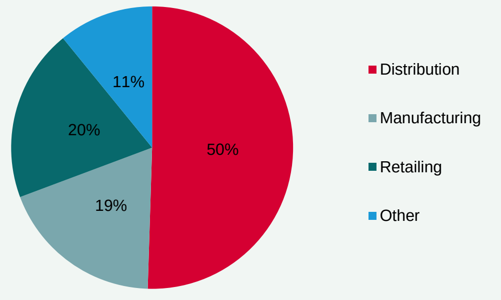

**Average market rental growth**

Jan 2010 = 100




**Take up by occupier type**

Units over 50k sq. ft., four quarters to Q3 2022



# Retail & Leisure

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

Contact:

Emma Barnstable

# RETAIL

## MARKET OVERVIEW

### CONSUMERS

- Consumer confidence fell to its lowest ebb (-49 pts) in September but made a 2-point improvement by October (-47pts). Outlook on personal finances (-34 pts) is far from optimistic, but consumers are more concerned by the state of the UKs current economic situation (-61 pts).
- Retail sales have been robust despite the 'cost of living' narrative, but values (amount spent) and volumes (number of items brought) have started to diverge as inflation bites. Values remain firmly in positive territory (Sept +3.3%) but volumes are down (Sept -6.2%), with consumers buying less but still able / willing to pay for the privilege.

### OCCUPIERS

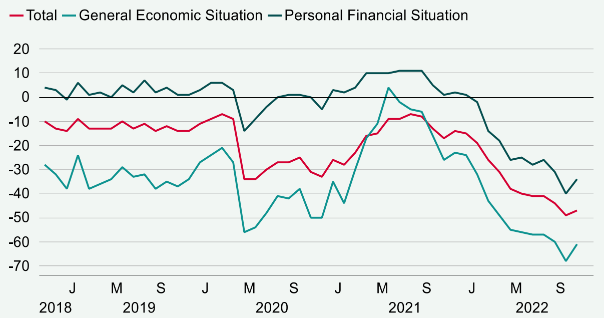
- Occupier markets have stabilised solidly over the last 18 months and the recovery process remains ongoing, with retailers now on the defensive rather than on the ropes.
- COVID posed the ultimate 'survival of the fittest' test with less able operators falling by the wayside. Survivors have radically reviewed their operational infrastructure / balance sheets and are now ready to weather the storm of recession.
- Vacancy rates continue to track positively. UK Retail vacancy rates strengthened for a fourth consecutive quarter in Q3 to 13.9%.
- There continues to be very little distress to date, with those that have succumbed to administration / CVA processes almost exclusively online pure-players. Eve Sleep and Made.com have been the most recent casualties.

### INVESTMENT

- Markets reacted swiftly to recent political & economic unrest, with Q3 volumes (£1.21bn) approx. -44% below 5 year average. Capital growth moderated in September (+7.1%) from its May peak (+14.9%), with rental movement sluggish (July -0.6%, August -0.4%, Sep -0.1%).
- Overall retail is less exposed than other commercial sectors having 'right-priced' over recent years. It remains on track to achieve total annual return of +3.6% above the All Property average (+0.8%).

**Consumer Confidence**

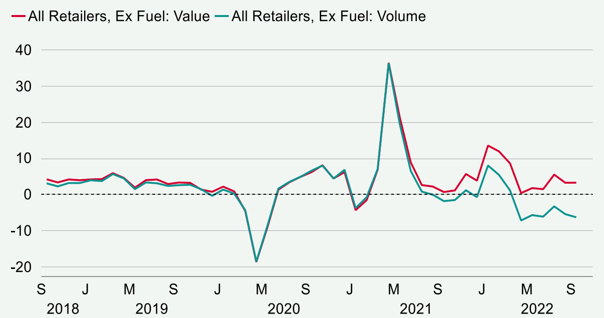
Confidence over the next 12 months, net balance




Source: Gfk, Macrobond

**ONS Retail Sales**

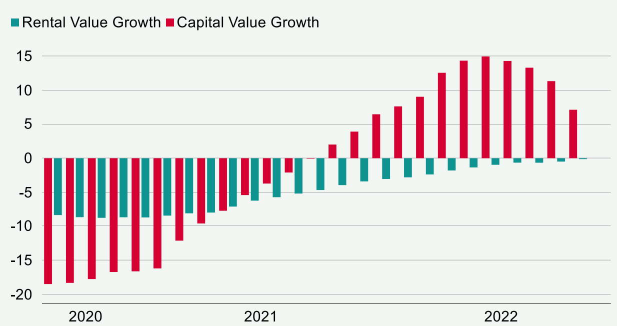
Monthly YoY change, %




Source: ONS, Macrobond

**All Retail - Rental / Capital Value Growth**

% change




Source: MSCI, Macrobond

# HIGH STREET RETAIL

## MARKET OVERVIEW

### CONSUMERS

- In October, footfall hit -10.5% below pre-pandemic levels, the best month for the high street since Covid-19 struck. The school half-term holiday boosted performance, with Springboard's town centre sales tracker recording a +1.8% rise in bricks and mortar sales.
- High streets are also benefitting from the prospect of recession, which is driving the drift back to the office and city centre locations: Central London -32.2% Sept vs. -22.2% Oct / Regional Cities -19.3% Sept vs. -15.7% Oct.

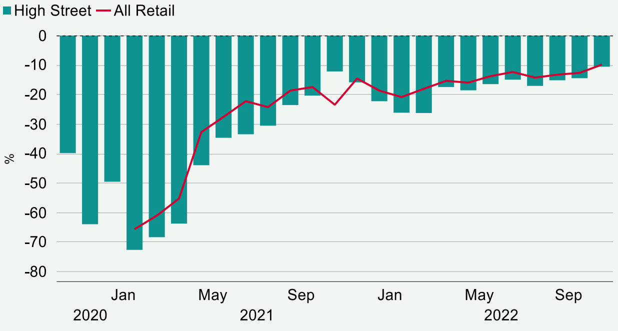
### OCCUPIERS

- Vacancy rates registered a 10bp improvement to 13.9% in Q3. Vacancy rates are in-line with the All Retail (13.9%) rate, ahead of Shopping Centres (18.8%), but behind Retail Parks (9.7%).
- With the impacts of recession set to fully bite this Winter, many retailers are either seeking to conserve cash, or position themselves for unique growth opportunities and market share gains.
- For instance, Boots is preparing for its 'most value Christmas ever', pricing 50% of its gifting ranges under £10. Meanwhile others are making substantial investments in their workforce, e.g. M&S's £15m employee support package.

### INVESTMENT

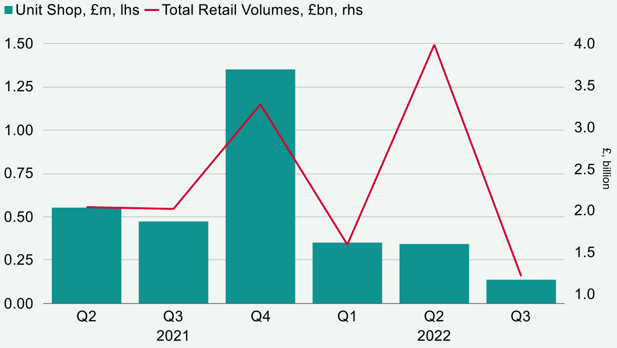
- High Street deals made up 11% of total Retail investment made in Q3 (£136m). High Streets were the second most affected sub-category in terms of QoQ decline. Volumes dipped -60% vs. Q2 levels (£343m) indicative of the scale of investors' changing sentiment.
- A handful of significant deals did cross the line, undeterred by economic / political turmoil. Frasers Group acquired space for its new Flannels flagship at 115 – 126 Briggate for £40m. As the former Debenhams department store in Leeds, its reoccupation will be warmly welcomed.
- Prime High Street Yields remained at 6.25%, where they have been stable since February 2022. Good Secondary yields softened 25bps from 8.25% to 8.50%.

**High Street Footfall**
Monthly YoY Change %



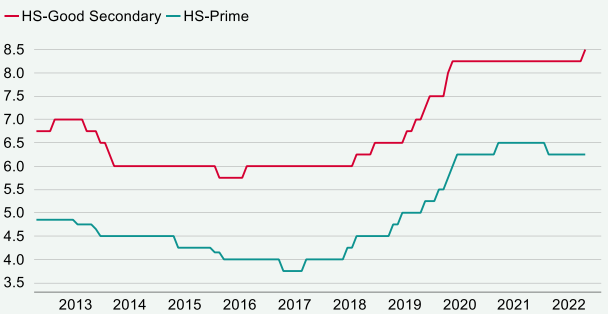

Source: BRC, Springboard, Macrobond

**High Street Investment Volumes**




Source: Property Data, Macrobond

**High Street Yields**
%




Source: Knight Frank, Macrobond

# SHOPPING CENTRES

## MARKET OVERVIEW

### CONSUMERS

- Footfall improved to -14.7% below pre pandemic levels in October, the best monthly performance for Shopping Centres since the pandemic struck. Although still lagging behind All Retail (-9.8%), rates have shown marked improvement. Footfall averaged -20.9% in H1 2022, vs. -17.6% in Q3.

### OCCUPIERS

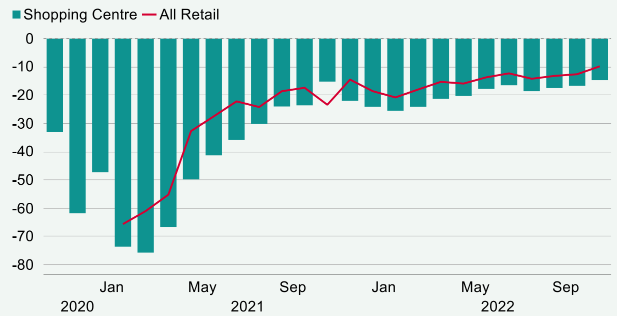
- Vacancy rates continue to show sustained recovery despite headwinds. Q3 witnessed a 10bp improvement to 18.8%. However, Shopping Centre vacancy rates are still higher than the overall All Retail rate (13.9%).
- Many fashion occupiers reported better than expected sales and remain quietly optimistic for the year ahead. A Q3 survey by Retail Week of 54 major retailers found 64% expect sales to be higher YoY in 2022, with 67% forecasting YoY growth again in 2023.

### INVESTMENT

- Shopping Centre transactions totalled £97m in Q3 as the sub-sector became one of the biggest victims of a spooked investment market. Volumes nosedived -90% vs. Q2 levels (£983m). Compared to the 5-year average (£270m), volumes were also underweight.
- Key deals included £33.3m disposal of County Mall (Crawley) by Abrdn, and £21.2m acquisition of Grosvenor Centre in Chester by Martin Property Group.
- Martin Property Group was a major buyer during the quarter, acquiring Westside Plaza (Edinburgh), Clarendon Square (Hyde), Rochdale Exchange (Rochdale), Four Seasons (Mansfield), Ankerside (Tamworth), and Angel Place SC (Bridgewater).
- Regionally Dominant yields remained at 7.50% in October, where they have been stable since March 2022. Sub Regional yields moved out by 25 bps between September (8.50%) and October (8.75%).

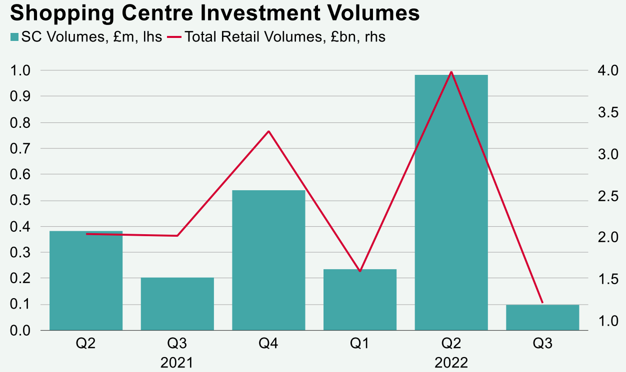
**Shopping Centre Footfall**

Monthly YoY change, %




Source: BRC, Springboard, Macrobond

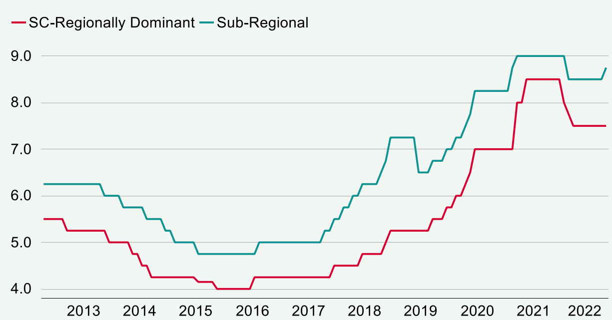
**Shopping Centre Investment Volumes**




Source: Property Data, Macrobond

**Shopping Centre Yields**

%




Source: Knight Frank, Macrobond

# OUT OF TOWN

## MARKET OVERVIEW

### CONSUMERS

- Footfall reached -3.3% below pre-pandemic levels, outperforming All Retail (-9.8%). Despite enjoying a considerable lead vs. other sub-sectors, footfall appears to have stagnated around -4.0% mark for some time (Q1: 4.6%, Q2: 3.6% Q3: 4.1%).

### OCCUPIERS

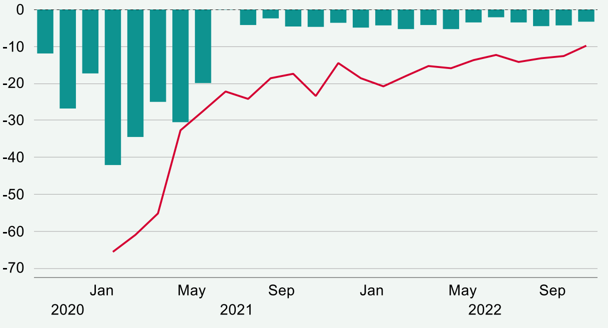
- Out Of Town vacancy rates remain the lowest of all the retail sub-sectors at 9.7% (Q3 2022). OOT rates also continue to see the biggest improvements quarter-on-quarter, improving 50 bps vs. Q2 levels (vs. Shopping Centres 10bps / High Streets 10bps).
- Several OOT operators reported robust sales performance, maintaining their annual profit expectations and planned pipeline expansions.
- For instance, ScS recorded +8.6% increase in sales and +68% uplift in profit for its full year to July 30, 2022. Meanwhile Greggs stated its ambition to open 150 stores during this financial year, with sales growing +14.6%.

### INVESTMENT

- Of all the retail sub-classes, RWH investment volumes remained most resilient. Despite global and domestic pressures, the fundamental characteristics remain compelling – robust covenants, rebased rents, and falling vacancy rates creates sustainable income for comparatively low capex.
- Approximately 37% of Q3 Retail investment was made in Retail Warehousing assets. Volumes dipped just -8.8% to £447m (vs. £491m in the previous quarter). This compares favourably when compared to the quarter on quarter declines witnessed across Shopping Centres (-90%) and High Streets (-60%).
- The biggest deal of the quarter was acquisition of the Tesco-anchored Willow Brook Centre in Bristol by Supermarket Income REIT for £84m.
- Yields moved out by 25bps across Open A1 / Fashion Parks and Bulky Goods Parks to reach 5.25% in October. This marked a 50bp softening vs. August 2022, where yields stood at 4.75%.

**Retail Warehouse Footfall**

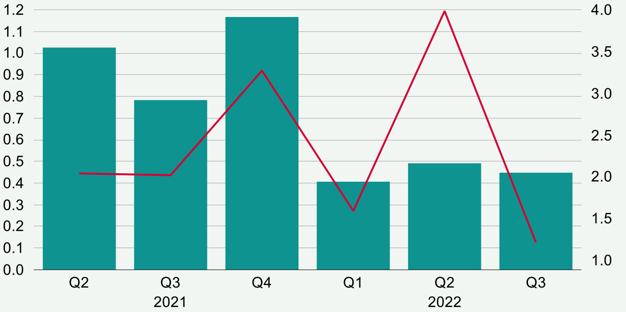
Monthly YoY change, %




Source: BRC, Springboard, Macrobond

**Retail Warehousing Investment Volumes**

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

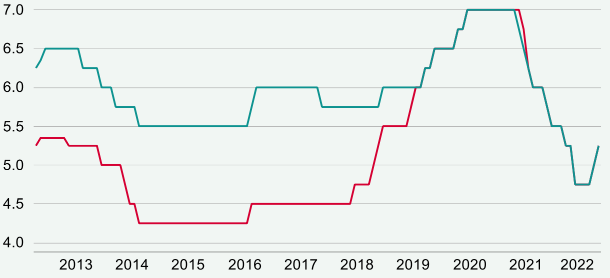



Source: Property Data, Macrobond

**Retail Warehouse Yields**

%

OOT-Open A1/Fashion Parks — OOT-Bulky Goods Parks




Source: Knight Frank, Macrobond

# LEISURE

## MARKET OVERVIEW

### CONSUMERS

- Consumer surveys suggested 'significant' cutbacks would be made on eating & drinking out, but this sentiment did not fully materialise. CGA tracked an increase in hospitality spend in September vs. August, with 52% of consumer visiting premises at least weekly.
- Whilst rising prices are of concern, a desire to enjoy affordable luxuries and make up for lost celebrations from the pandemic continue to drive visits.

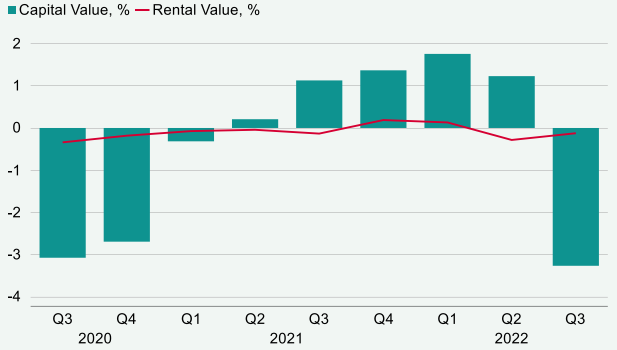
### OCCUPIERS

- Managed operators fared much better than independents, generally having greater financial reserves & more buying power in energy and supplier negotiations. Managed sites saw a net increase (+179) vs. independents which declined by -1,751 sites between June and September.
- Major churn remains a key characteristic of the market with closures swiftly reoccupied by well-capitalised businesses seeking opportunities. Between June and September, managed Bar Restaurants (+0.3%), Bars (+0.1%), Community Pubs (+8.0%), Food Pubs (+1.4%), and High Street Pubs (+4.6%) all grew site numbers.

### INVESTMENT

- £669m worth of leisure investment was made in Q3, with 67 deals completing. Key deals included LXI REITs sale of Thorpe Park / Alton Towers theme park assets on virtual freehold (£257m), and £20.37m forward funding commitment with Abrdn on a new build 62,500 sq ft David Lloyd fitness club in Shawfair, Edinburgh.
- Capital values fell to -3.2% in Q3, down from +1.2% in Q2. There was minimal change in rental values (Q3: -0.1% vs. Q2: -0.2%).
- Yields registered at 7.0% for Leisure Parks in October, where they have been since Nov 2020. Secondary Leisure Parks also remained stable at 10.0%.
- Good Secondary Leisure Parks softened 25bps to reach 8.25% in October.

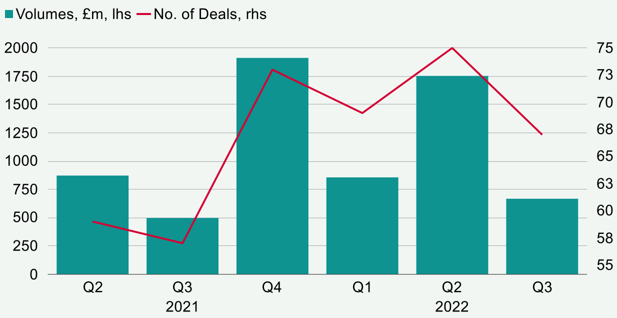
**Leisure - Rental / Capital Value Growth**




Source: MSCI, Macrobond

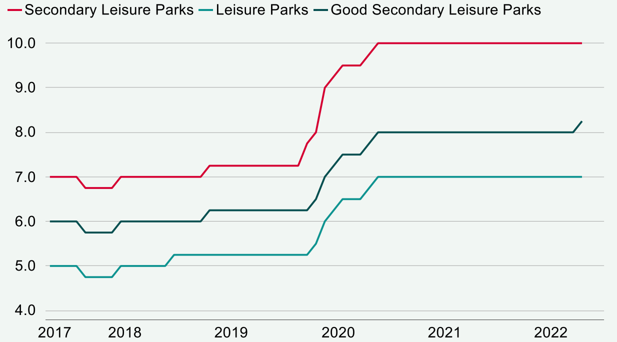
**Leisure Investment Volumes**

*includes all deals with leisure asset, excluding confidential deals




Source: Property Data, Macrobond

**Leisure Yields**




Source: Knight Frank, Macrobond

# FOODSTORES

## MARKET OVERVIEW

### CONSUMERS

- Q3 grocery sales grew (+6.1%) faster than Non-Food (+3.8%), but effects of inflation were slightly deeper (volumes -4.9%, vs. Non-Food (-3.9%)).
- 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 face a +£682 jump in their annual grocery bill if they continue to buy the same items.
- Many consumers therefore starting to 'trade down' the price pyramid from branded to own-label products, the latter witnessing growth of +10.3% in October.

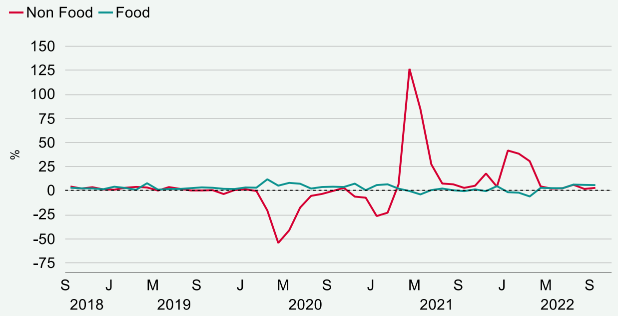
### OCCUPIERS

- According to Kantar, in the 12 weeks to October 30, Aldi was the fastest growing retailer, increasing sales by +22.7% YoY to hold a 9.2% market share. Asda led the traditional 'Big Four' growing sales by 5.3% & maintaining market share of 14.3%.
- Iceland grew slightly ahead of the market, with sales increasing by 5.3%. Co-op's sales rose by 3.3%, while Waitrose's sales dipped by 1.9%. Online retailer Ocado held sales flat versus last year and it has a 1.6% share of the market.
- Online grocery is still unwinding. In September, online accounted for 8.9% of all food sales (vs. its pandemic height of 11.9% (Jan 2021). Whilst considered more convenient for some, online grocery shopping comes at a premium, with many currently unwilling to stomach often substantial delivery fees.

### INVESTMENT

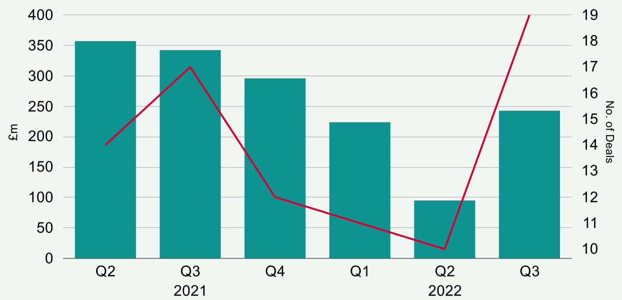
- Investment volumes (£242m) grew substantially versus the previous quarter (£95m), with 19 deals transacting.
- Supermarket Income REIT was the biggest buyer. Included in its acquisition spree was a £76.4m portfolio of two Tesco supermarkets in Cheltenham and Merseyside, as well as a Sainsbury's anchored site in Glasgow with M&S Foodhall.
- Yields hardened by 75 bps between August and October, hitting 4.75%.

**Food vs. Non-Food Retail Sales**
Monthly change YoY



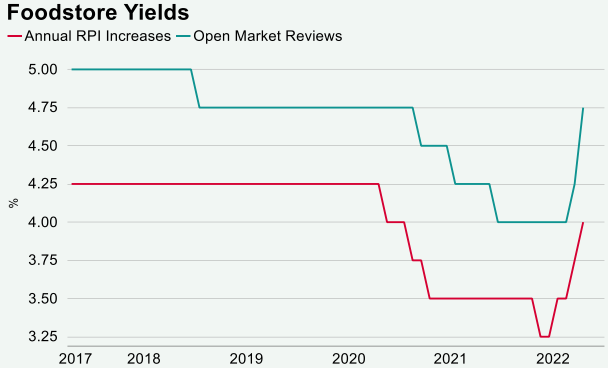

Source: ONS, Macrobond

**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

Hotel – Philippa Goldstein

Life Sciences – Jennifer Townsend

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 impacts to operator trading, with our recent research highlighting that utilities account for c.34% of property costs.

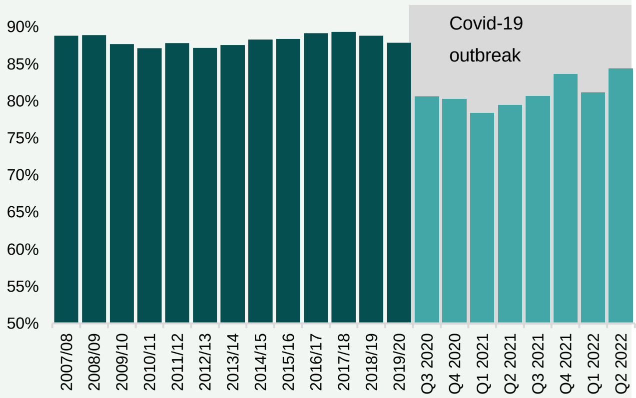
- All care fees are up 3.3% on the year with private pay homes achieving around 8.5% fee growth. The main question that emerges from this is to what extent can fees rise to allow operators to offset inflationary pressures and the resulting cost of care provision.

### SUPPLY

- Newer homes are now being developed with a view of improving the current stock with emphasis on full wet room facilities and size within the range of 60-100 beds. Based on our most recent trading performance research this size range benefits from economies of scale, with the greatest profitability margins.

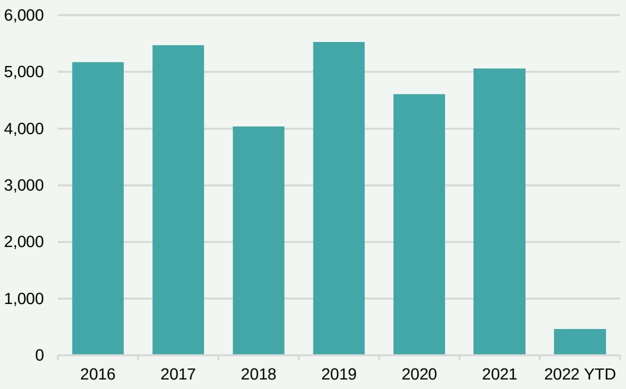
- Whilst the sectors bed supply is still likely to face numerous obstacles in terms of inflationary pressures and cost of debt, we can still remain positive based on the level of granted planning applications which represented circa. 2,100 beds in Q1 and 2,700 beds in Q2 of the year.

**Occupancy**




Financial year end is March
Source: Knight Frank

**New build care beds completed**




Data is as of March 2022
Source: Knight Frank

# HEALTHCARE

## INVESTMENT MARKET

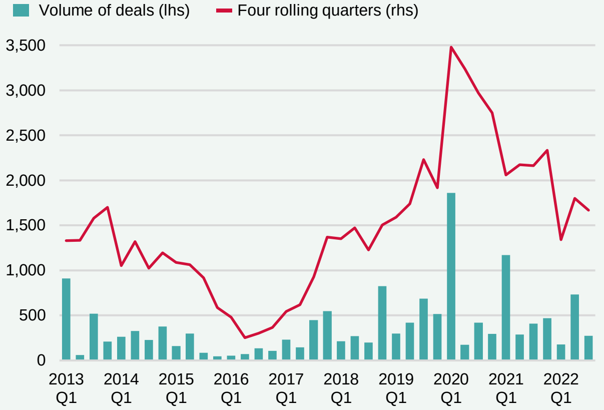
### INVESTMENT

- Rolling four quarter volume to Q3 sits at approximately £1.6bn, down by roughly £500m for the same period last year, however it is important to note that we have not had any outlier large portfolio transactions as in previous years with overseas REITs taking the Priory and BMI assets.
- 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.
- Finally emerging as a trend this quarter is that the occupiers have been more active on the acquisition front, whilst overseas capital continues to feature.

### FORWARD VIEW

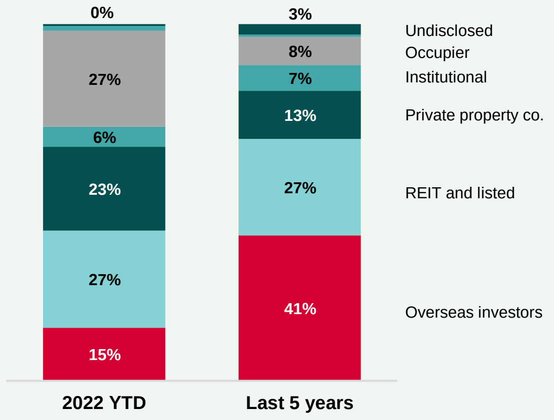
- Current inflationary pressures impacting build costs means that the unlocking of sites and deliverance of future proof market standard beds will likely slow, however this may in fact shift the emphasis from development to standing investment with core plus or value add potential.
- Rising rates and thus a higher cost of debt could lead to a shift in the composition of capital, private equity capital may begin to feature more heavily than in previous years, while investors that have historically utilised gearing may become more cautious in their deployment.
- Investors will also need to keep a watchful eye on the P&Ls of operators and will no doubt become stricter in their underwriting as rising costs make their way into operator trading, with a focus on metrics such as EBITDARM margins and rent covers.

### 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

- Month-on-month growth across all top line performance indicators was recorded in the year to July 2022, but faltered in August, at the height of the summer trading period, before returning to growth in September. The performance in August was influenced by trends in the staycation demand, with a higher proportion of outbound demand compared to the previous two years. Visit Britain forecast inbound visits for 2022 to be at 65% of 2019 levels, which continues to impact upon London's occupancy performance, at 10 percentage points lower than in 2019 for the month of September.
- Regional UK now exceeds its RevPAR performance for the six months to September 2022 by 1.6% compared to the same period in 2019, whilst London has recorded marginal growth of 0.6%. In Q3-2022, regional UK achieved occupancy of 76% and 73.4% in London. Fuelled by strong demand across multiple segments, the ability to drive rates within a high inflationary environment has resulted in ADR surging ahead by 21% in London and 14% in regional UK, for the six month period April to September, when compared to 2019 prices.
- A recovery in top-line performance has supported the recovery in profits, with an uplift for Q3-2022 GOPPAR of 33% in regional UK and 28% in London versus the previous quarter. In Q3-2022, regional UK achieved a GOP margin of 35% and London 46%.

### OUTLOOK

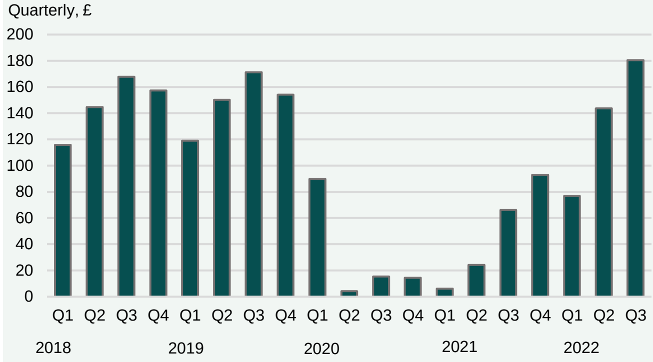
- Market sentiment is that the pace of recovery is likely to slow. Whilst strong ADR growth has mitigated some of the operational headwinds, departmental operating income is under pressure from lower F&B spend and rising food, staffing and other operational costs. Efficiencies made during the pandemic are keeping undistributed operating expenses mostly under control, but, the continuing surge in energy prices is compressing margins, by approximately 1.5 to 2.0 percentage points.
- Despite macro-economic uncertainties deepening, with a further rise in interest rates deemed likely before the year-end to combat rising inflation – the UK hotel market continues to capitalise on the travel recovery, with ongoing strong pent-up demand for leisure. Boosted by a weak pound versus the US dollar, the UK is becoming a more affordable destination for overseas visitors.

### SUPPLY

- Over 30,000 new rooms have opened in the UK since the start of 2020, with London supply growth at 4.7% and 2.4% in regional UK during this period after taking into consideration hotels which have permanently closed. By 2025, London's compound annual average growth is set to slow to 1.5% and to 0.8% in regional UK.

**RevPAR in London**

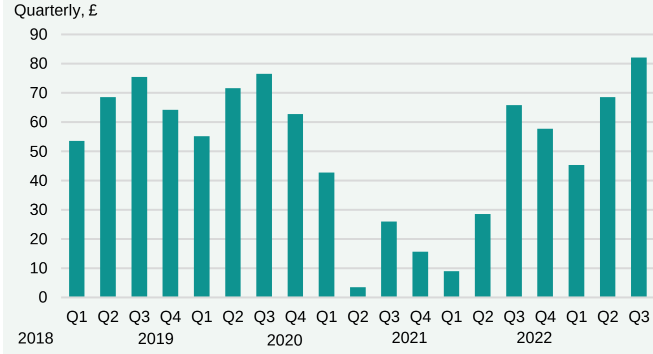
Quarterly, £




Source: HotStats

**RevPAR in Regional UK**

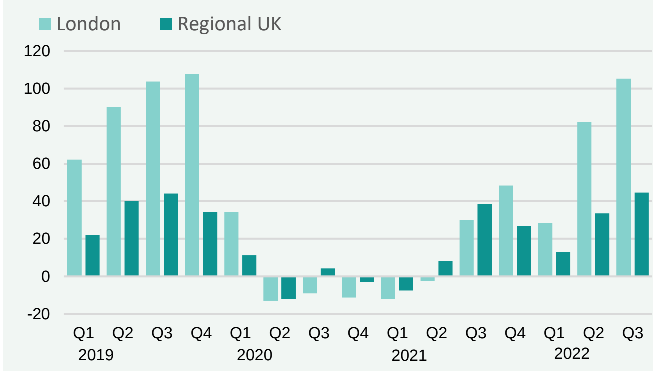
Quarterly, £




Source: HotStats

**Gross Operating Profit PAR**

Quarterly, £




Source: HotStats

# HOTEL

## TRANSACTIONAL MARKET

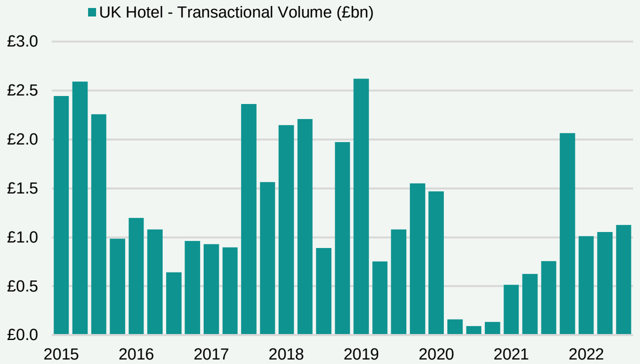
### INVESTMENT

- 2021 witnessed a period of remarkable resilience, with £4 billion of hotel transactions. Some 52% of this investment took place during Q4, with the strong spell of investment activity continuing into 2022. Investment activity as at October YTD has totalled £3.2 billion, with the investment volume some 71% ahead of the same period in 2021.
- Transactional activity has been relatively evenly split, with London recording over £1.5 billion of transactions and regional UK achieving almost £1.7 billion of transactions. Hotel investment volumes have increased by 42% in London compared to the same ten-month period in 2021.
- In Q3-2022, London recorded five major hotel transactions, including Curio Collection by Hilton, The Trafalgar St James, The Dilly, Park Hyatt London Trafalgar Square, Vauxhall Square Aparthotel and the NH London Kensington.
- The current volatility in the UK economy and the rising cost of debt, with uncertainty as to where interest rates will peak, is resulting in a softening of property yields. The lack of availability and the rising cost of debt is making it more difficult to invest at vendors' price expectations. As such, with investors now taking a more conservative approach, a slowdown in the volume of transactions is taking place across the sector. Where deals have succeeded, a late price chip has often occurred in order for the transaction to be secured.

### OUTLOOK

- Deepening operational headwinds, will likely drive asset disposal programmes in the months ahead, opening the door for opportunistic cash-rich investors. Where investors can get comfortable with the volatility, cross border capital flows could be significant with a weakened pound versus the US$ - particularly by those private-office, HNWI not reliant on the debt markets.
- Well-performing hotel assets in prime destinations remain highly sought after. Transactional volumes in 2022 are anticipated to be broadly in line with 2021, with overseas investment continuing to target London assets.

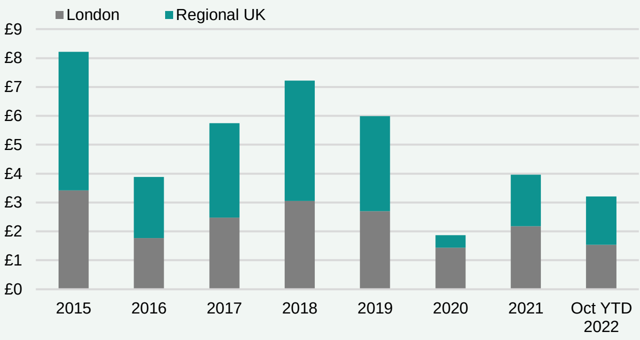
**Investment volumes**




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

**Investment volumes**

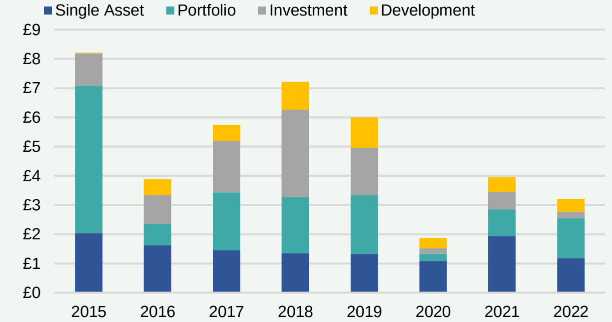
£bn




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

**Investment volume breakdown**

£bn




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

# LIFE SCIENCE

## MARKET OVERVIEW

### SECTOR PERFORMANCE

- Venture capital funding into UK life sciences companies continued its slowdown in Q3 2022 as funding decreased 35% quarter-on-quarter and 49% year-on-year, standing at £733mn and £2.6bn respectively.

- Deal activity hit 120 deals in total over the quarter, marking a 30% quarterly drop and the lowest number of deals over the past 5-years' worth of quarterly data. Investors are being more conservative, however proven innovators with strong fundamentals are still securing financing. Take Cambridge-based Nuclera as an exemplar. The company raised £54.8mn in series B financing.

- The top UK cities by number of deals to date in 2022 are London, Cambridge, Oxford, Edinburgh and Bristol, whilst the listing by amount raised reads London, Cambridge, Oxford, Glasgow and Edinburgh.

- It should be noted that there were some significant funds raised outside of venture capital. Verona Pharma, for example raised $130m in a second public offering while Private Equity financing into UK life sciences is at its highest level since 2019.

- The number of life sciences companies incorporated in the UK reached 212 in Q3 2022, bringing the year to date total to 701. This is down 5% on last quarter but 18% above the 5-year average.

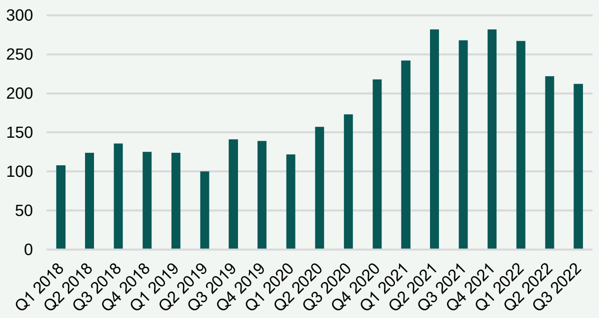
- Professional, scientific and technical job vacancies fell to 127,000 in the period from July to Sept 2022; down 6,000 on the quarter. However vacancies were up 23,000 on July to Sept 2021.

### OUTLOOK

- The sector continues to remain attractive to investors due to the strong underlying growth fundamentals. Good companies 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.

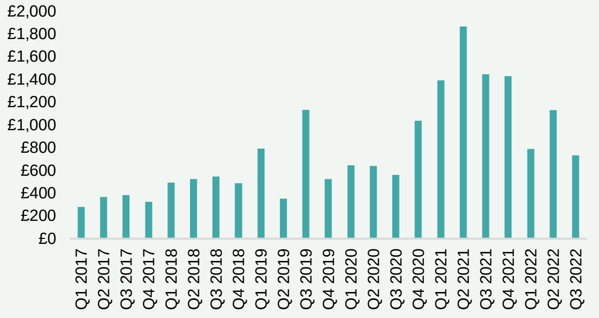
#### Life sciences company incorporations




Source: Knight Frank

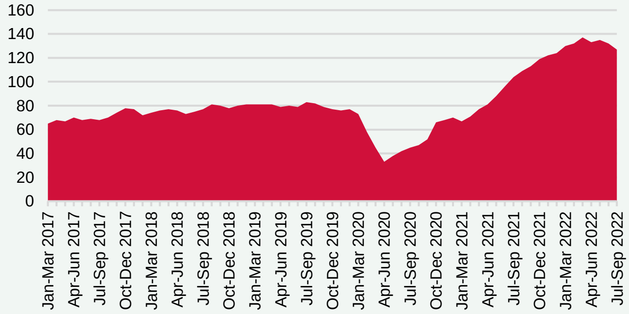
#### VC funding into UK life sciences companies

£m




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

#### Vacancies for UK professional, scientific and technical roles




Source: Knight Frank, ONS

# LIFE SCIENCE

## MARKET OVERVIEW

### INVESTMENT MARKET

- Q3 2022 life sciences real estate investment deals included: UBS, who bought Beaver House from Christ Church College, Oxford University, for £65m. It plans to redevelop the office block into a life sciences scheme. Kadans Science Partner purchased 18-20 Tileyard road in King's Cross, London for £25mn. The site will be converted into life sciences accommodation. In Oxford, Oxford Nanopore Technologies completed the sale of its interest in the Gosling Building at the Oxford Science Park.

- Active investors in Q3 2022 included: UBS Asset Management, RPMI Railpen, Kadans Science Partner and The Oxford Science Park.

- Investment volumes are expected to be on a par with 2021. Competition will continue to be fierce for assets/development opportunities in top tier locations, however the sector is not immune to re-pricing given current economic headwinds.

### OCCUPIER MARKET

- Oxford, Cambridge and London remain the epicentre of life sciences leasing activity. However the largest transaction was Yourgene Health Care at Skelton House, Manchester Science Park for 43,029 sq ft of fitted lab and office space.

- Key leasing transactions in the South East in Q3 2022 included: Nuclera who acquired 30,000 sq ft at Mortlock House in Cambridge.

- Key leasing transactions in London in Q3 2022 included: Omega Pharma (21,598 sq ft) at one Embassy Gardens, SW8. Vertex Pharmaceuticals (15,152 sq ft) at 4 Kingdom Street, W2 and AstraZeneca (15,260 sq ft) at 2 Pancras Square., N1C.

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

# AUTOMOTIVE

## MARKET OVERVIEW

### REGISTRATIONS

- Ongoing supply chain shortages, surging inflation and a growing cost of living crisis have led to a -2.2% downward revision of the market outlook for the year, with 1.56 million registrations now anticipated. This puts 2022 on course to be the market's toughest year since 1982. Positively, demand for electric vehicles is anticipated to result in a plug-in market share of 21.9%.

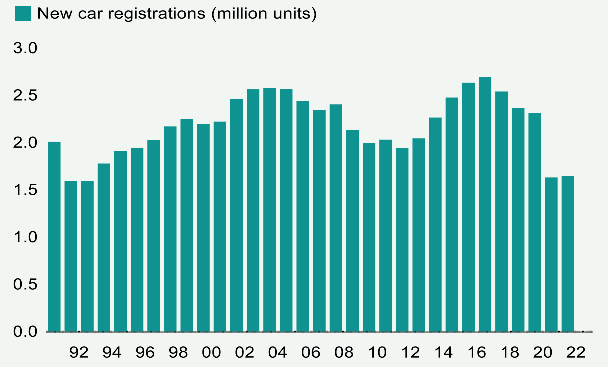
### OCCUPIER MARKET

- Almost all manufacturers have placed expansion plans on hold while the sector battles against economic and geopolitical headwinds. Tesla and several used car operators (examples include Motorpoint and Arnold Clark) continue to be the outliers, all of whom remain focused on strategic acquisitions across the UK.

### INVESTMENT MARKET

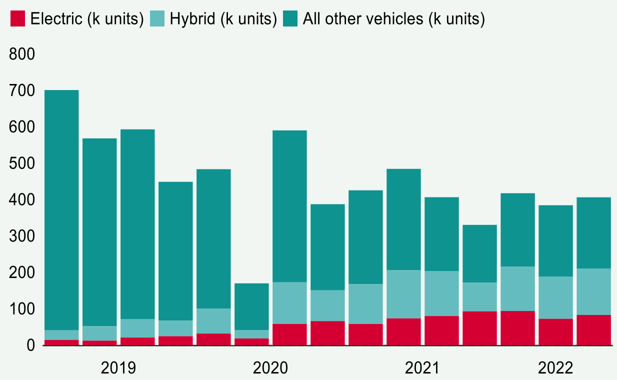
- Over the last two quarters we have witnessed notable cross-sector deterioration in the commercial property markets. To date much of this has been based upon sentiment, as opposed to hard evidence, given that transaction levels have slowed considerably. Market hesitation stems from wider macroeconomic uncertainty, leading to a clear 'disconnect' between buyer and vendor pricing aspirations.
- In some instances, we are witnessing large valuation discounts on some industrial stock, where prices paid in the last 12-24 months now appear very aggressive. More modest adjustments are expected in the motor retail market, although investors are seemingly retrenching from the sector once more. This, combined with a glut of stock, is proving the catalyst for pricing discounts of 50-150 basis points in some cases. To date, we are aware of 11 dealership assets which are on the market with a total value of approximately £100m and lot sizes ranging from c. £2.5m to c. £30m.

**New car registrations**



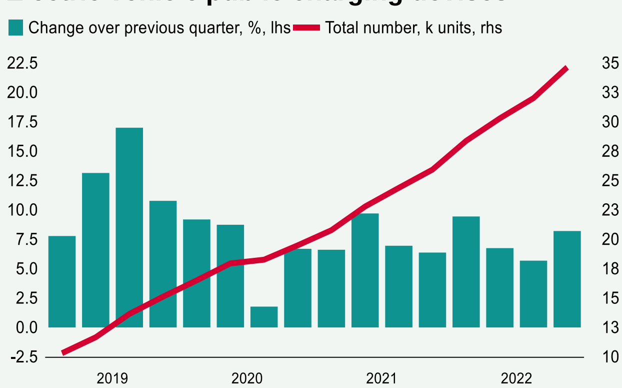

Source: Macrobond

**New car registrations by fuel type**




Source: Macrobond

**Electric vehicle public charging devises**




Source: Macrobond

# KEY CONTACTS

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- Healthcare
- Life Sciences
- Automotive
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