

UK Real Estate Navigator



Q1 2024

A quarterly review of the UK commercial real estate market

knightfrank.com/research



ECONOMIC
UPDATE

CAPITAL
MARKETS

OFFICES

INDUSTRIAL &
DISTRIBUTION

RETAIL &
LEISURE

SPECIALIST
SECTORS

CONTACTS

Economic update

Global and UK economy

CONTACT: [VICTORIA ORMOND, CFA](#)



Global economy

The global economy shows signs of resilience

GLOBAL OUTLOOK: SOFT YET RESILIENT

Against a backdrop of improving economics, evolving geopolitics, and an end to ratcheting rate hikes, the global economy continues to demonstrate its resilience, with growth holding steady as inflation returns to target. In the latest IMF forecasts, global GDP growth is now set to rise by +3.2% in both 2024 and 2025.

Economic growth expectations for the US have been upgraded for 2024. The IMF forecasts US GDP to grow by +2.7%, up by +60bps from its previous forecast in January. Meanwhile, the IMF revised its Euro Area GDP growth forecast lower for 2024, downgrading it by -10bps to +0.8%. For 2025, the IMF expects the US and Euro Area economies to grow by +1.9% and +1.5%, respectively.

Despite global economic headwinds, labour markets across many geographies remain tight. The US unemployment rate fell to 3.8% in March 2024, from 3.9% in February. In Germany, the unemployment rate was 5.9% for the fifth consecutive month in April, remaining below its 8.3% LTA.

GLOBAL BUSINESS ACTIVITY PICKS UP

The Global Services PMI increased to 52.7 in April, from 52.4 in March, remaining in expansionary territory (figure above 50) for the 16th successive month.

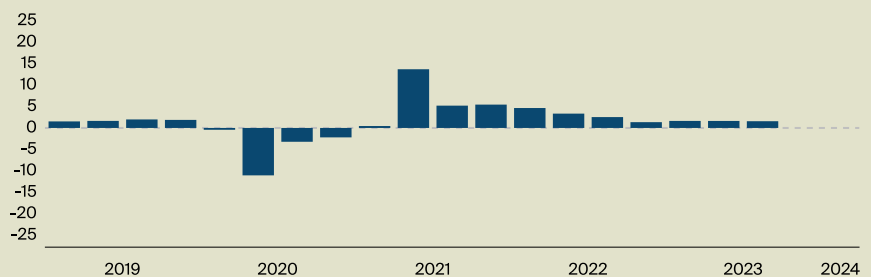
Meanwhile, the Global Manufacturing PMI moderated to 50.3, down from March's 19-month high of 50.6. However, this was its third month in expansionary territory (figure above 50).

INFLATION: A BUMPY ROAD TO RECOVERY

Across the world, global headline inflation continues to decline from its peak, albeit the pace of disinflation has slowed. With noise around inflation surprises and continually evolving global geopolitics, the path is unlikely to be smooth. In the Euro Area, inflation remained unchanged at 2.4% in April 2024. Meanwhile, US inflation rose for the second successive month to 3.5% in March, up from 3.2% in February and its highest level since September 2023.

Gross Domestic Product

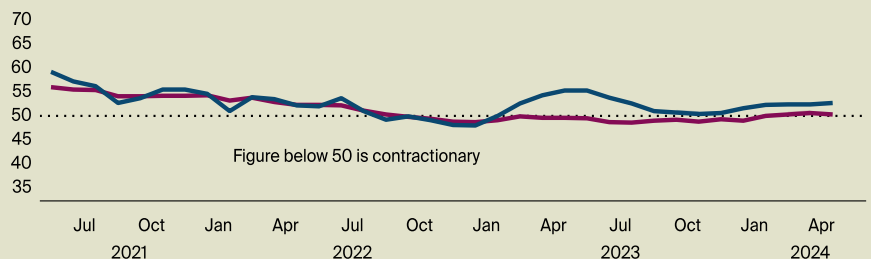
Quarterly OECD countries GDP growth, % change YoY, seasonally adjusted



Source: Knight Frank Research, Macrobond, OECD

Business Activity Index

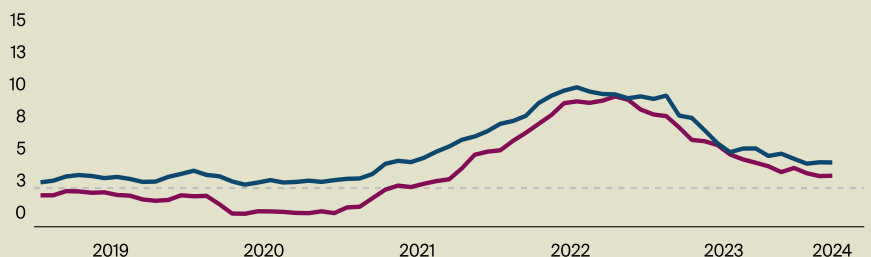
Manufacturing PMI Services PMI



Source: Knight Frank Research, Macrobond, S&P Global /CIPS

Inflation

Advanced Economies CPI Emerging & Developing Economies CPI



Source: Knight Frank Research, Macrobond, World Bank

UK economy

UK inflation to moderate to the 2.0% target in Q2 2024

UK GDP EXPANDED IN FEBRUARY

UK GDP outperformed initial projections in 2023, despite falling into a technical recession in the latter half of the year. However, the UK has already emerged from the recession in Q1 2024. On a monthly basis, GDP expanded by +0.3% in January, +0.2% in February and a further +0.4% in March. Therefore, the UK economy grew by +0.6% overall in Q1 2024, exiting the recession it entered in H2 2023.

The IMF updated its GDP forecasts in April 2024. It now expects the UK's GDP to grow by +0.5% in 2024, down slightly from its previous +0.6% growth forecast in January. For 2025, the IMF expects the UK economy to grow by +1.5%.

The UK unemployment rate stood at 4.2% in the three months to February 2024, slightly up from 3.9% in the quarter prior, yet remains comfortably below the long-term average of 6.7%.

BUSINESS ACTIVITY IMPROVES

The UK Services PMI rose to a 12-month high of 55.0 in April, up from 53.1 in March, and its sixth consecutive month in expansionary territory (figure above 50).

Meanwhile, the UK Manufacturing PMI moderated to 49.1 in April, down from March's 20-month high of 50.3.

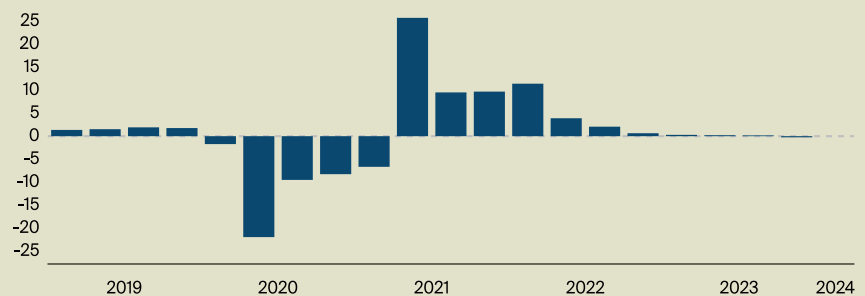
UK INFLATION TO REACH TARGET IN Q2

UK inflation eased to its lowest level in two and a half years at 3.2% in March 2024, down from 3.4% in the month prior, and below the 3.6% Bank of England (BoE) forecast. This is the first time inflation in the UK has come in below the US since April 2022. Oxford Economics expects UK inflation to moderate sharply in the near term as falling energy prices take effect. UK inflation is expected to fall to 1.9% in Q2 2024 and 1.8% in Q3 2024, before rising to 2.1% by the end of the year.

With inflation forecast to fall to target in H1 2024, most economists expect rate cuts from the BoE to start in June. Money markets are currently pricing in the first of two quarter-point rate cuts in August, taking the base rate to 4.75% by the end of 2024.

Gross Domestic Product

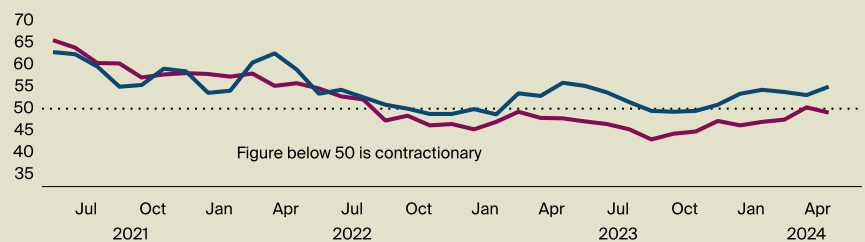
Quarterly UK GDP growth, % change YoY, constant prices, seasonally adjusted



Source: Knight Frank Research, Macrobond, ONS

Business Activity Index

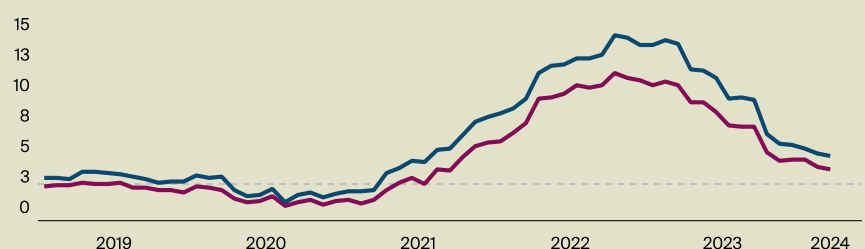
Manufacturing PMI Services PMI



Source: Knight Frank Research, Macrobond, S&P Global /CIPS

Inflation

CPI RPI



Source: Knight Frank Research, Macrobond, ONS

[ECONOMIC
UPDATE](#)

[CAPITAL
MARKETS](#)

[OFFICES](#)

[INDUSTRIAL &
DISTRIBUTION](#)

[RETAIL &
LEISURE](#)

[SPECIALIST
SECTORS](#)

[CONTACTS](#)

Capital markets

UK commercial real estate

CONTACT: [VICTORIA ORMOND, CFA](#)



Capital markets

The UK was the most invested market for overseas capital in Q1 2024 for All Property

LIVING SECTORS #1 IN Q1 2024

The UK remained the second most invested market globally in Q1 2024 and the top location for cross-border capital. Similarly, London was the top global cross-border metro in Q1. However, volumes have moderated reflecting wider global macroeconomic headwinds and elevated financing costs.

UK commercial real estate (CRE) investment totalled £9.6bn in Q1 2024. This was -2% down on investment in Q4 2023, a -14% contraction on Q1 2023, and -30% below the Q1 long term average. However, Global (-23%) and European (-22%) CRE investment saw larger declines YoY.

The Living Sectors (£2.0bn) were the most invested sector in Q1 2024. This was followed by Retail (£2.0bn), Industrial (£1.8bn), Hotels (£1.7bn), Offices (£1.7bn) and Senior Housing & Care (£0.7bn). Hotels (+221%), Senior Housing & Care (+137%) and Living Sectors (+68%) were the only sectors to record an increase in investment YoY in Q1 2024.

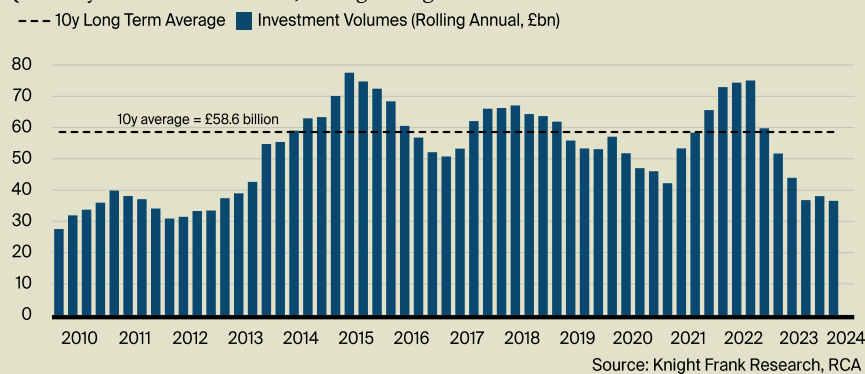
Cross-border investment into the UK showed signs of moderation in Q1 2024, with £3.6bn invested, down -27% on Q1 2023. However, US investors picked up investment into the UK in Q1, with volumes up by +3% QoQ and 37% YoY to £2.9bn, the most of any overseas capital.

A PICK-UP IN ACTIVITY IN H2 2024?

The shift to a more dovish outlook for monetary policy in the latter half of the year, combined with the softening trend seen in swap rates at the start of the year, could encourage UK commercial real estate investment volumes to increase in H2 2024. We predict there could be a six-to-nine-month window for investors to capitalise on current pricing, amid thinner competition before the anticipated recovery becomes a widely accepted view, although this window could shorten across certain markets.

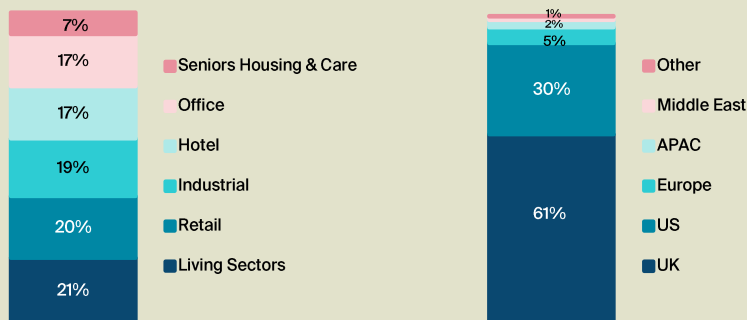
UK quarterly investment volumes

Quarterly investment volumes, rolling average



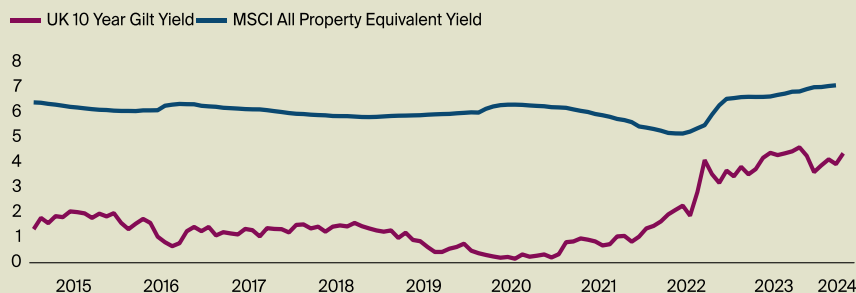
Investment volume breakdown

% of Q1 2024 volume



Property equivalent yield & gilt yield

%

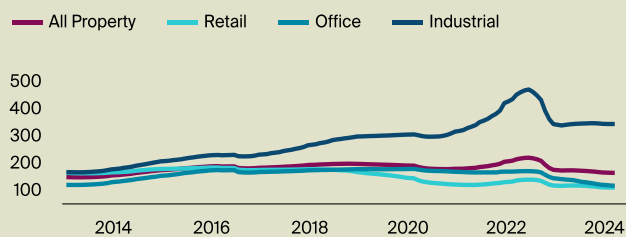


Capital markets

The IPF forecasts the Industrial sector to record the highest capital and rental value growth in 2024

MSCI Capital Value Growth Index

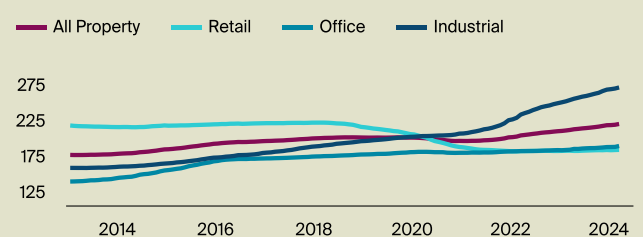
Dec 1986 = 100



Source: Knight Frank Research, MSCI

MSCI Rental Value Growth Index

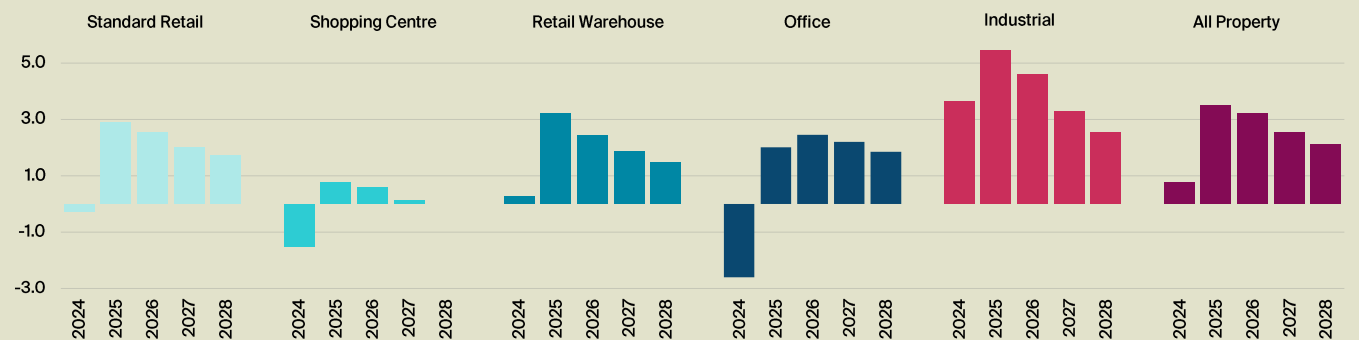
Dec 1986 = 100



Source: Knight Frank Research, MSCI

IPF Consensus Capital Value Growth Forecast

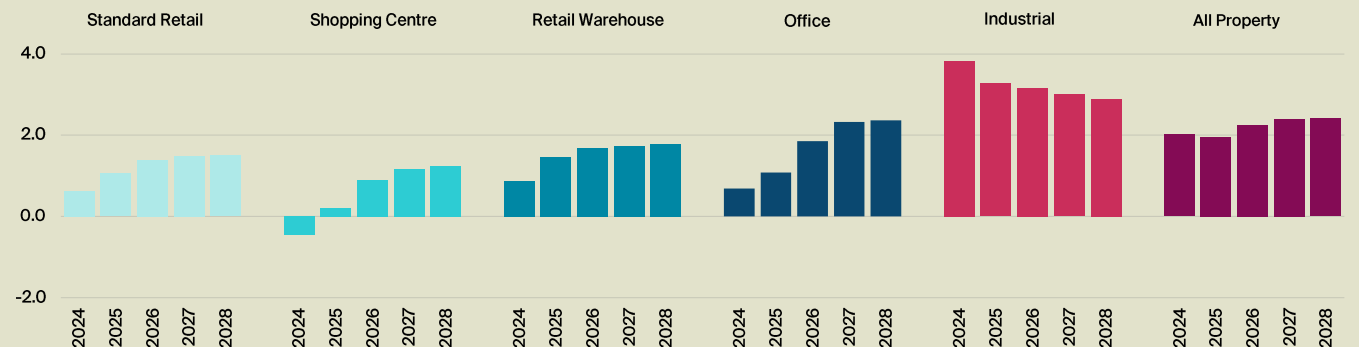
%, February 2024 forecast



Source: Knight Frank Research, IPF

IPF Consensus Rental Value Growth Forecast

%, February 2024 forecast



Source: Knight Frank Research, IPF

[ECONOMIC
UPDATE](#)

[CAPITAL
MARKETS](#)

[OFFICES](#)

[INDUSTRIAL &
DISTRIBUTION](#)

[RETAIL &
LEISURE](#)

[SPECIALIST
SECTORS](#)

[CONTACTS](#)

Offices

City & Southbank, West End, Docklands & Stratford, South East & UK Cities

CONTACT: LONDON – [SHABAB QADAR](#), SOUTH EAST & UK CITIES – [DARREN MANSFIELD](#)



[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

OFFICES

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

City & Southbank offices

Transaction volumes fall, but yields remain stable

LOWER INVESTMENT VOLUMES

Prime yields have remained stable at 5.25% for a third consecutive quarter. Consequently, price discovery has been hampered not just by the volatility in interest rates, but also by investors expecting a stronger indication of nearing the bottom of the re-pricing cycle.

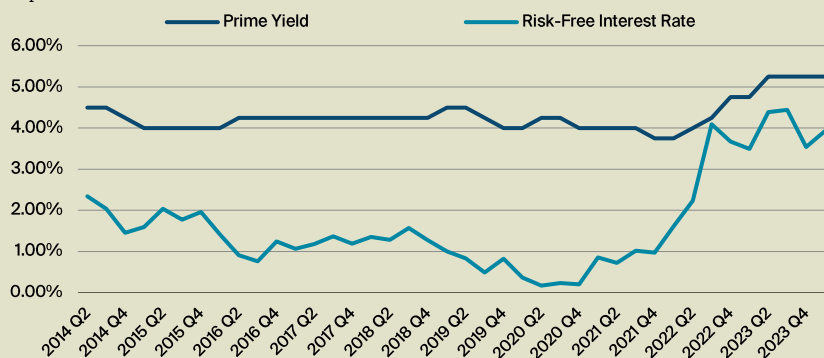
In Q1, the number of investment transactions was relatively high at 19, but the total value traded was only £0.3bn. This is the lowest quarterly total in the City & Southbank since Q1 2002. Just over £0.4bn of potential transactions are under offer, the lowest level since Q2 2015.

During the quarter, investors from the United Kingdom acquired £0.2bn of office assets, accounting for 57% of volumes. This was followed by continental European investors at £0.5bn (18% of total transactions).

By investor group, private capital continued to drive the market, with £0.2bn of acquisitions or 62.5% of all transactions in the City & Southbank. This included the largest transaction of the quarter at 65 Fleet Street, EC4Y, which was acquired by Dominvs Group Ltd for £85m.

City & Southbank: Prime yield and risk-free rate

% per annum

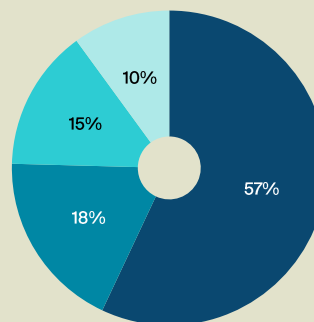


Source: Knight Frank Research

City & Southbank: Investment volumes by nationality

2024 Q1, % of total investment volumes

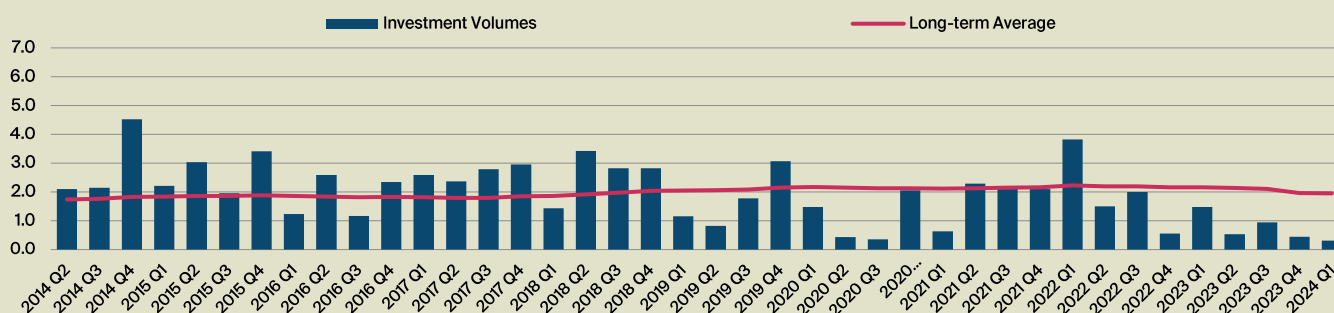
- United Kingdom
- Europe
- North America
- APAC



Source: Knight Frank Research

City & Southbank: Investment volumes relative to trend

£billion



Source: Knight Frank Research

ECONOMIC UPDATE	CAPITAL MARKETS	OFFICES	INDUSTRIAL & DISTRIBUTION	RETAIL & LEISURE	SPECIALIST SECTORS	CONTACTS
---------------------------------	---------------------------------	-------------------------	---	--------------------------------------	------------------------------------	--------------------------

City & Southbank offices

Near-term active demand rises for third consecutive quarter to 5.5m sq ft

SEASONALITY LED SLOWDOWN IN TAKE-UP

After three consecutive quarterly rises, take-up fell by 53.4% in Q1 to 1.1m sq ft. This is 30% below the quarterly long-term average of 1.6m sq ft. Only Vauxhall/Battersea experienced a positive quarterly change in take-up.

The most significant letting in Q1 was by the financial services firm Wise, and their pre-letting of 85,234 sq ft at Worship Square, EC2A, in the Clerkenwell/Farringdon submarket. The second largest transaction was Grant Thornton LLP at 8 Finsbury Circus, EC2M. The accounting firm let 75,167 sq ft and an additional 22,349 sq ft in assignments from two separate assignors, bringing their total space in the building to 97,516 sq ft. The professional services sector was most active, leasing 38% of the Q1 total, followed by financial services (25.6%) and technology, media, and telecoms (15.1%).

NEAR-TERM DEMAND STRENGTHENS

Active demand rose for the third consecutive quarter to 5.5m sq ft of floorspace requirements. This is an 8.8% quarterly increase and is 26.9% above the quarterly long-term average.

Near-term demand continues to be led by financial services, accounting for just over half of all requirements in the City & Southbank. Professional services are the next largest occupier group (29.1% of the total).

Amongst the largest requirements in the market are Gallagher (c.250 – 350,000 sq ft), London Stock Exchange plc (c. 300,000 sq ft) and Investec (c. 200 – 250,000 sq ft).

NEW AND REFURB AVAILABILITY IS TIGHTENING

Availability rose by a slight 2% in Q1 – the first rise in three quarters – to stand at 14.1m sq ft. This minor increase produces a vacancy rate of 10.2%, compared to a quarterly long-term average of 7.0%. However, there is wide variation in vacancy rates by submarket and by quality. Three submarkets have vacancy rates below the market average – the City Core (9.5%), Midtown (8.2%) and Southbank Core (7.5%).

Of the 1.7m sq ft under offer in the City & Southbank, just below 1m sq ft is in the City Core. Conversion to executed lettings deals would imply a new and refurbished vacancy rate of 3.8%, which would be in line with the long-term average, and the lowest rate since Q3 2019.

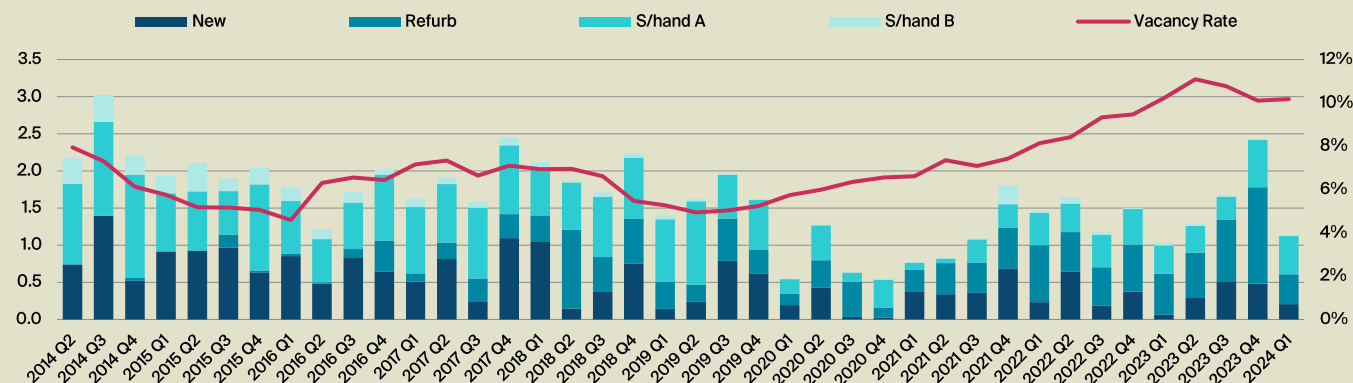
PRIME RENTS STABLE

Prime rents were unchanged, following a lean quarter for prime lettings in the City & Southbank market. However, rental tension for the best quality buildings remains prevalent, amidst tightening supply. For example, in the two largest submarkets – the City Core and Midtown – headline prime rents are growing by an annual rate of 16.7% and 14.3%, respectively.

Incentives are also unchanged during the quarter, ranging between 24 and 27 months for a standard 10-year lease.

City & Southbank: Take-up by quality and vacancy rate

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



Source: Knight Frank Research

ECONOMIC UPDATE	CAPITAL MARKETS	OFFICES	INDUSTRIAL & DISTRIBUTION	RETAIL & LEISURE	SPECIALIST SECTORS	CONTACTS
---------------------------------	---------------------------------	-------------------------	---	--------------------------------------	------------------------------------	--------------------------

West End offices

West End investment volumes resilient even with lower transaction volumes

INVESTMENT MARKET RESILIENCE

Over three quarters of London investment witnessed in Q1 took place in the West End, demonstrating its appeal during a period of market tumult. This is further reinforced by prime yields remaining unchanged at 3.75% - a negative spread to the risk-free rate of interest and implying investors are confident in the markets ability to preserve value.

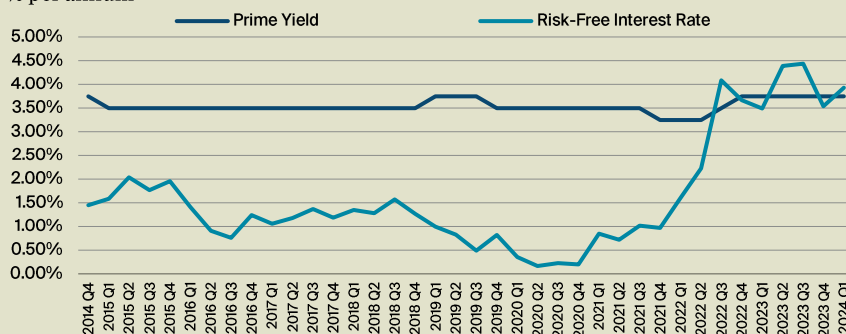
Transaction volumes amounted to £1.0bn, down 27.4% during the quarter and 26.0% below the quarterly long-term average.

The largest transaction in Q1 was Royal London Asset Management (RLAM) acquiring a 50% stake in British Land's 1 Triton Square development for £192.5m. RLAM and British Land have announced the formation of a 50:50 joint venture to reposition 1 Triton Square into a premium science and innovation building.

During the quarter, investors from the United Kingdom were the most active and acquired £0.3bn, accounting for 32% of volumes.

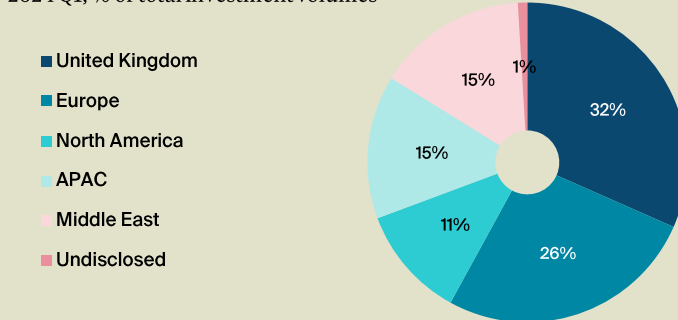
Private capital continued to drive investment, with private property companies or singular investors accounting for 45% of all investment by volume.

West End: Prime yield & risk-free interest rate
% per annum



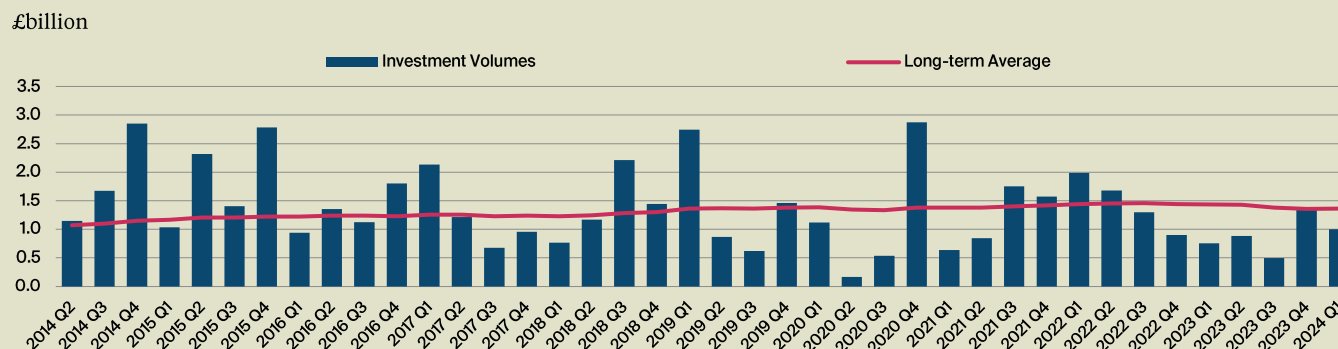
Source: Knight Frank Research

West End: Investment volumes by nationality
2024 Q1, % of total investment volumes



Source: Knight Frank Research

West End: Investment volumes relative to trend



Source: Knight Frank Research

ECONOMIC UPDATE	CAPITAL MARKETS	OFFICES	INDUSTRIAL & DISTRIBUTION	RETAIL & LEISURE	SPECIALIST SECTORS	CONTACTS
---------------------------------	---------------------------------	----------------	---	--------------------------------------	------------------------------------	--------------------------

West End offices

Polarised take-up and solid near-term demand

TAKE-UP LOW BUT BROAD-BASED

Take-up fell by 55.9% to 0.6m sq ft - the lowest quarterly total for almost three years. The London-wide trend of limited lettings of larger size band offices was particularly evident in the West End. There were only three deals above 20,000 sq ft which resulted in an average deal size of 4,555 sq ft, almost half the level recorded in Q4.

Despite the lower deal flow, the quality of floorspace being leased remained high with 60.4% of take-up for new and refurbished offices. Only King's Cross/Euston and Marylebone experienced a positive quarterly change in take-up.

The sectoral breakdown of take-up was broad-based. The financial services group were the largest occupier group, accounting for almost one quarter of all space let in Q1. They were followed by technology, media, and telecoms (21.2%), and corporates (18.7%). The TMT sector was responsible for two of the largest lettings of the quarter in the West End. These included the 61,257 sq ft pre-let by Super Group at St Pancras Campus, NW1, in the King's Cross/Euston submarket, and Databricks Inc, who leased 28,252 sq ft at Charlotte House, W1T, in Fitzrovia.

Immediate prospects for the lettings market are supported by 0.95m sq ft of deals currently under offer and a near 20% quarterly rise in occupiers with active floorspace requirements. On this last measure, the Q1 total of 2.2m sq ft is the second highest level of active requirements in five years.

AVAILABLE SPACE TIGHT IN MANY SUBMARKETS

Total availability increased marginally (up 2.8%) in Q1, to just over 7m sq ft. This equates to a vacancy rate of 7.5%, as compared to a long-term average of 6.2%. There is, of course, wide variation across the market. In the West End Core, the vacancy rate is the lowest in London at 4.8%, whilst the level of availability (0.8m sq ft) is the lowest since Q1 2008. Other submarkets with below-market average vacancy rates include Victoria (5.2%), Soho (5.2%), King's Cross/Euston (6.6%) and Bloomsbury (7.0%).

The under construction speculative pipeline increased by 14.5% in Q1 to 4.2m sq ft, with most schemes completing by 2026. This is the highest total since Q1 2015 but does fall below average levels of new and refurbished take-up and suggests a cumulative under supply of 0.8m sq ft by 2026.

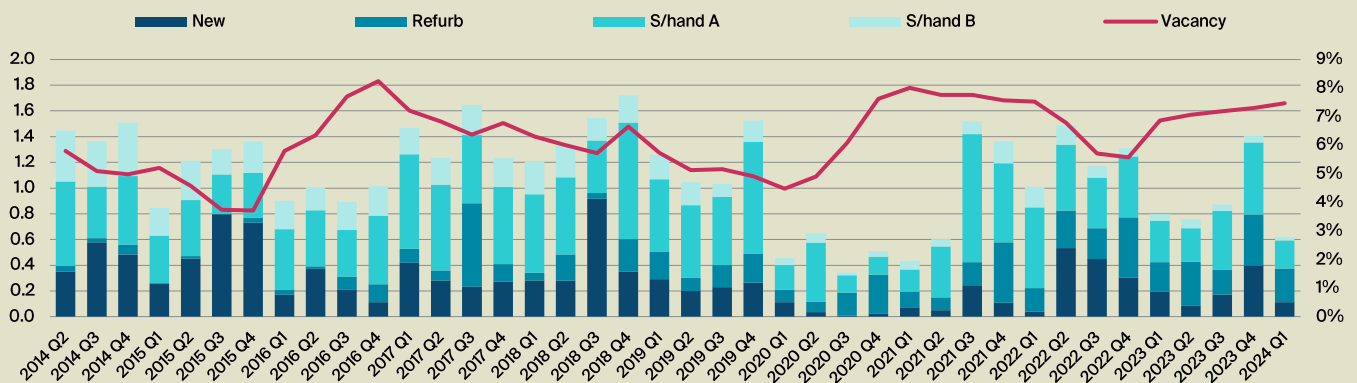
NO CHANGE TO PRIME RENTS

Prime rents across the West End were unchanged during Q1, but there remains upward pressure on headline rents with near-term demand strengthening and a squeeze on availability. In the last 12 months, prime rents have risen in the largest submarkets of the West End Core and Victoria by 15.7% and 9.1%, respectively.

Rent free periods are stable and are as low as 21 months in the West End Core and are a maximum of 26 months in non-core West End submarkets for a standard 10-year lease.

West End: Take-up by quality and vacancy rate

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



Source: Knight Frank Research

ECONOMIC UPDATE	CAPITAL MARKETS	OFFICES	INDUSTRIAL & DISTRIBUTION	RETAIL & LEISURE	SPECIALIST SECTORS	CONTACTS
---------------------------------	---------------------------------	-------------------------	---	--------------------------------------	------------------------------------	--------------------------

Docklands & Stratford offices

Take-up rises in Q1, as does availability

TAKE-UP BUCKS TREND

Docklands & Stratford was the only broad market in London to experience growth in lettings activity during Q1.

There were four lettings driving a QoQ rise of 31.5% to 129,322 sq ft. Nevertheless, take-up remains below the quarterly long-term average of 207,018 sq ft for a sixth consecutive quarter. There was a relatively even share in lettings by quality and three of the four lettings were in mid-sized buildings. As a result, 50.6% of take-up last quarter was for new and refurbished buildings, and there was a significant rise in the average deal size to 32,331 sq ft.

The largest deal in London took place in the Docklands market last quarter. The deal was split over two lettings by the University of Sunderland at the Harbour Exchange buildings, and was for a combined total of 95,628 sq ft. The education sector has become increasingly attracted to the Docklands market, letting more than half a million sq ft and accounting for 16.7% of all take-up over the last five years. The second largest deal of the quarter was the financial research provider Fitch Group in Canary Wharf, where 25,678 sq ft was leased at 30 North Colonnade, E14.

Active demand for office space rose to the highest level in two years to 435,000 sq ft – a rise of 210% compared to Q4. The largest requirements in the market are from Fitch Ratings and UCL School of Management. Both require offices greater than 100,000 sq ft. More than half of named active demand derives from financial occupiers, followed by the public sector (27.6%) and professional services (11.5%).

TOTAL AVAILABILITY RISES DUE TO UPCOMING COMPLETIONS

Due to the upcoming completion of the Turing building in Q3, which delivers 350,779 sq ft of speculative space, availability has risen 6% over the quarter to 4.4m sq ft. This has resulted in a vacancy rate of 17.6%, significantly above the long-term trend of 7.9%. The higher vacancy has been felt most acutely in the Stratford submarket, where the Turing Building is located. The Stratford vacancy rate has risen to 32%, a 12.6 percentage points rise over the quarter.

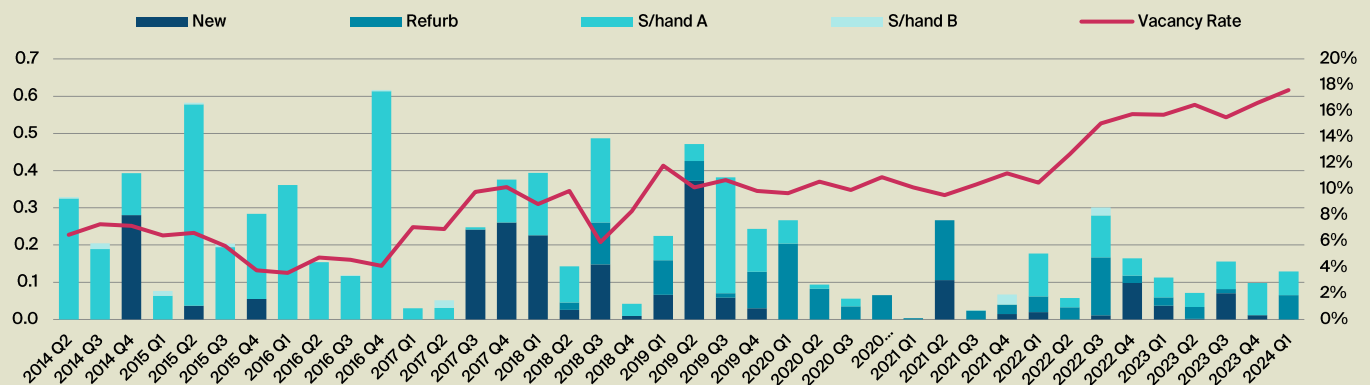
Prime rents have remained stable across all Docklands & Stratford submarkets. Rent frees are unchanged at 27-30 months on a typical 10-year lease.

HIGHER YIELDS

Despite a further 25 basis points decompression in prime yields, there was no investment activity during Q1. Since the peak was reached in the current cycle, prime yields have risen by 275 basis points, which amounts to an implied 30.6% decline in capital values.

Docklands & Stratford: Take-up by quality and vacancy rate

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



Source: Knight Frank Research

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

OFFICES

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

South East offices

Investment activity continued to recover at the start of 2024, with a forecast of improving market rates and more favourable debt costs expected to improve investor appetite

INVESTMENT VOLUMES RISE AGAIN

Investment turnover during Q1 was £398m across 26 transactions, the third consecutive rise in volumes but still 43% below the 10-year quarterly average. Even so, buying opportunities for prime or 'near prime' assets have remained particularly low, with the high cost of debt and weakened market rates continuing to impact buyer and seller appetite.

Similarly, investor interest in secondary stock is low, albeit growing interest toward possible permitted development opportunities may bolster activity in this area of the market moving forward. Pricing for poorer quality secondary and tertiary stock continues to soften, which may further entice private and opportunistic investors or those seeking such repositioning projects.

PRICING REMAINS UNDER THE MICROSCOPE

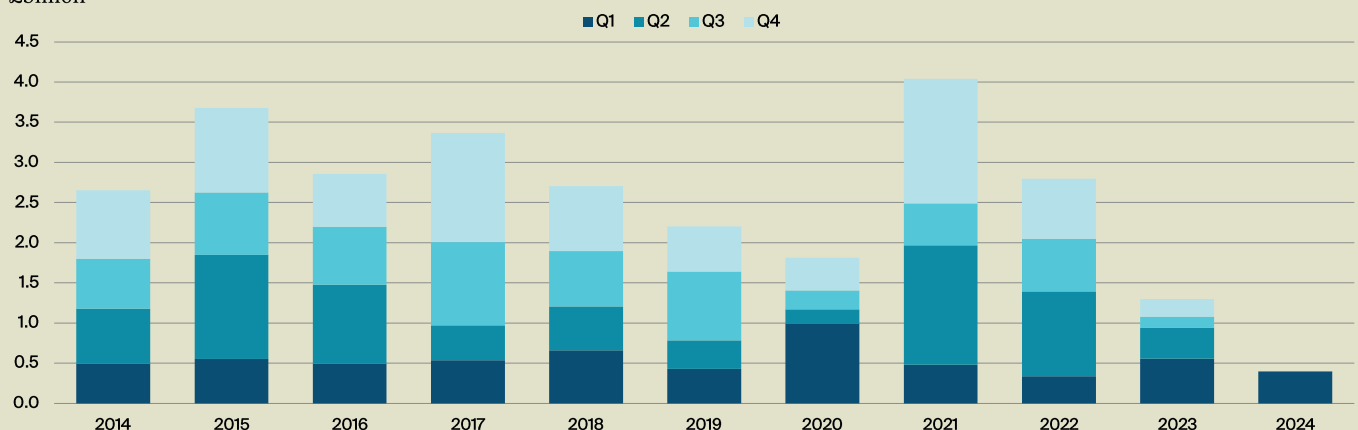
Prime yields for 15-year income remain at c.7.00%, albeit there was no evidence of this level during the first quarter, so price discovery is still a market characteristic. Opportunistic buyers are active and growing in number, and we anticipate that core and core-plus investors will also return in greater numbers as more favourable debt becomes available.

LIQUIDITY RETURNING TO THE HIGHER VALUE MARKET

In spite of challenging market conditions, the start of the year has seen a return of higher-value asset transactions. The total number of deals completed stood 16% above the five-year Q1 average, whilst the number of those above £20m has doubled since last quarter. Notably, the first asset to transact over £100m since Q1 2023 was One Ruskin Square in Croydon. HM Revenue & Customs acquired its headquarters for £115m, at a net initial yield of 6.00%. This was one of three public sector acquisitions this quarter.

South East Investment volumes

£billion



Source: Knight Frank Research

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

OFFICES

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

South East offices

The strongest Q1 since 2008, a notable increase in pre-letting and take-up of best quality space fuelled rental growth

OCCUPIERS JOSTLE FOR POSITION

Early occupier action underpinned activity in Q1 2024. Nine leases totalling 421,600 sq ft were agreed at buildings still under construction during the quarter. This represented 43% of total take-up, the highest proportion of leasing volumes since 2001.

The uptick in pre-leasing meant total take-up reached 979,125 sq ft, 12% above the 10-year quarterly average. Notably, the four-quarter rolling average rose to 4m sq ft, the highest total since before the COVID-19 pandemic (Q3 2019).

QUALITY DICTATES ACTION, BUT FOOTPRINTS REGISTER A RISE IN Q1

The high level of pre-leasing contributed to the overall percentage of new and Grade A take-up, rising to 94% during the quarter. This high concentration further demonstrates the current occupier's focus towards modern, sustainable offices with good transport connections and a strong amenity offer. While we noted a reduction in space requirements in previous quarters in conjunction with the pursuit of best quality, Q1 2024 bucked this trend.

In Q1, five deals above 50,000 sq ft were completed, the highest in just over two years. This may indicate that corporate occupiers are beginning to move from a strategy of 'just enough' to larger footprints, including an element of expansionary space.

'A' NARROWING' OF THE OCCUPIER LENS SUPPORTING RENTAL GROWTH

While economic conditions remain challenging, the steady erosion of the 'best quality' supply continues to support upward pressure on headline rents. The South East office rent index shows a 1% increase over the past 12 months. However, closer inspection indicates that 14 South East markets have exceeded the 1% average rise, and five have registered double-digit increases since Q1 2023.

SUPPLY EDGES UP, BUT NEW SPACE AVAILABILITY IS LOW

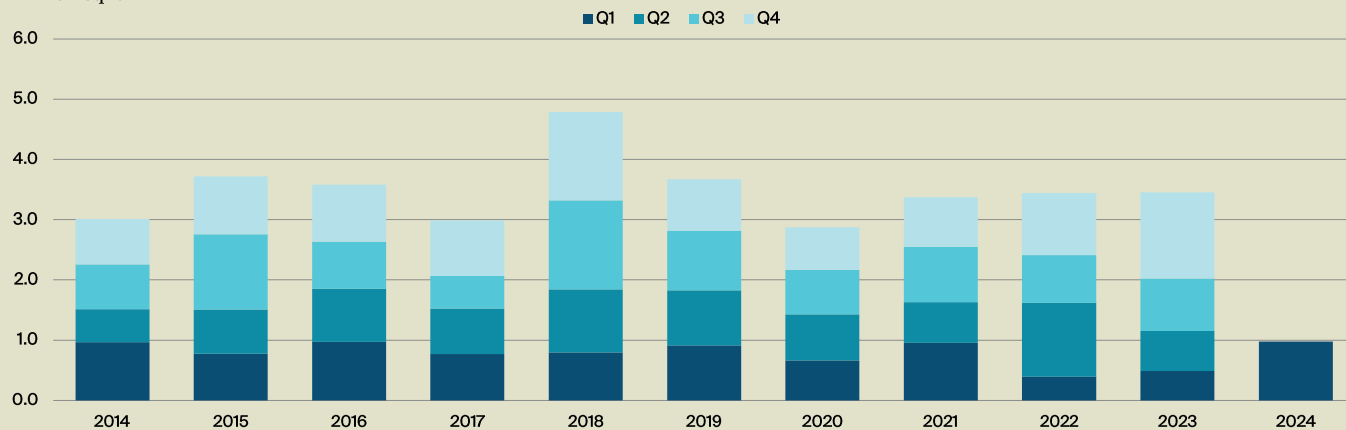
Total market vacancy has risen gradually since early 2020, settling at 8.6% at the end of Q1 2024. If considered for new and Grade A space, this rate is 6.6%. Each of these measures is the highest for 10 years. However, if considered for just new space – the principal focus of the market – the percentage this represents of total availability is just 7%, well below the 10-year average of 11.5%.

The tightening of new supply highlights the impact of a depressed development pipeline over the past 2 years, with only 900,000 sq ft of speculative developments delivered in the core South East markets since 2021-end. At the time of writing, a further 1.2m sq ft is due to complete by 2027.

High build costs and falling market rates will limit build viability, however. Knight Frank's [Tender Price Index](#) indicates that costs increased by 3.5% in the UK in 2023, following double-digit rises in the previous 3 years. This is expected to rise to 3.6% by 2027. Capital values have fallen accordingly, with yields increasing by c.100bps over the past 12 months.

South East Occupier take-up

Million sq ft



Source: Knight Frank Research

ECONOMIC UPDATE	CAPITAL MARKETS	OFFICES	INDUSTRIAL & DISTRIBUTION	RETAIL & LEISURE	SPECIALIST SECTORS	CONTACTS
---------------------------------	---------------------------------	----------------	---	--------------------------------------	------------------------------------	--------------------------

UK Cities offices

Q1 investment turnover remains stable, with UK property companies underpinning activity

A MODEST START FOR INVESTMENT TURNOVER IN 2024

Total investment across the UK cities reached £302.59m in Q1 2024, reflecting a 56% YoY increase, and 16% above the 5-year average for a Q1 period. Despite this, the number of deals completed is below the respective averages, with the average deal size increasing to £15.13m.

PRICING SHIFTS AGAIN

Prime office yields registered further softening in six out of the ten UK cities during Q1. The YoY shifts were between 75bps and 200bps across the cities. Pricing, however, is now much closer to buyer and seller expectations, which should improve transaction numbers moving forward.

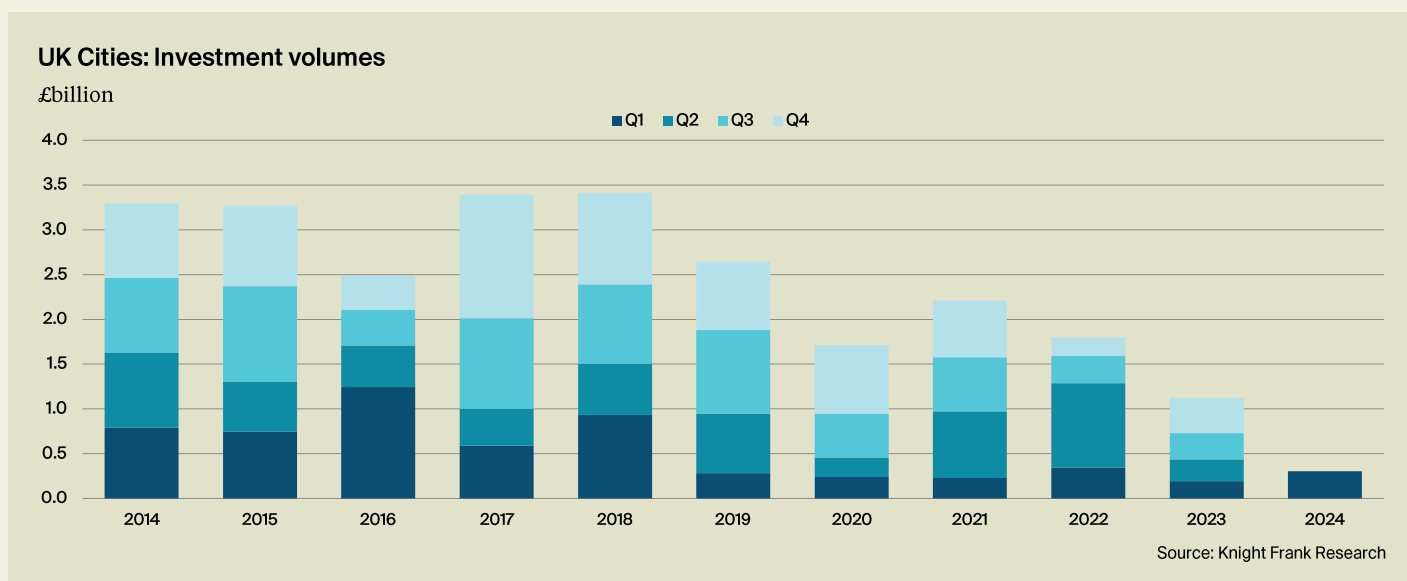
PROPERTY COMPANIES DOMINATE INWARD INVESTMENT

In Q1 2024, property companies accounted for 54% of total office investment across the UK cities, representing 11 out of 20 deals. As the UK economy begins to stabilise, it is expected that overseas investment will return to the regional office market for the benefits it has historically provided.

LANDMARK DEAL CROSSES THE LINE

Following lengthy negotiations, the largest asset to transact in Q1 was the brand-new Halo building in Bristol, purchased by institutional investor CBRE IM for £69.75m at a net initial yield of 5.77% from Tesco Pension Fund. It is a good example of the best building in the best location, having achieved BREEAM 'Outstanding' and WiredScore 'Platinum' certifications, and is a landmark deal for the UK regions.

With negotiations on the deal starting last year, it is reflective of the longer discussion periods currently seen across the UK office markets.



ECONOMIC UPDATE	CAPITAL MARKETS	OFFICES	INDUSTRIAL & DISTRIBUTION	RETAIL & LEISURE	SPECIALIST SECTORS	CONTACTS
---------------------------------	---------------------------------	----------------	---	--------------------------------------	------------------------------------	--------------------------

UK Cities offices

Limited supply of the best-quality office stock is prompting earlier occupier action and pushing prime rental values upward

STEADY OCCUPIER ACTIVITY IN Q1 2024

Take-up in the first quarter of 2024 stood at 1.14m sq ft. Although this is 12% below the 5-year quarterly average, it is 4% above the Q1 total of the previous year. The number of deals completed was on par with the 5-year Q1 average, totalling 243 across the regional cities.

Professional services continues to be the most active occupier sector, accounting for 27% of total take-up for the quarter. Law firm DAC Beachcroft took 44,196 sq ft and 13,228 sq ft of grade A space at the Welcome Building in Bristol and Landmark in Manchester, respectively. As two of the highest quality buildings across the regions, these transactions provide further evidence of the flight to quality.

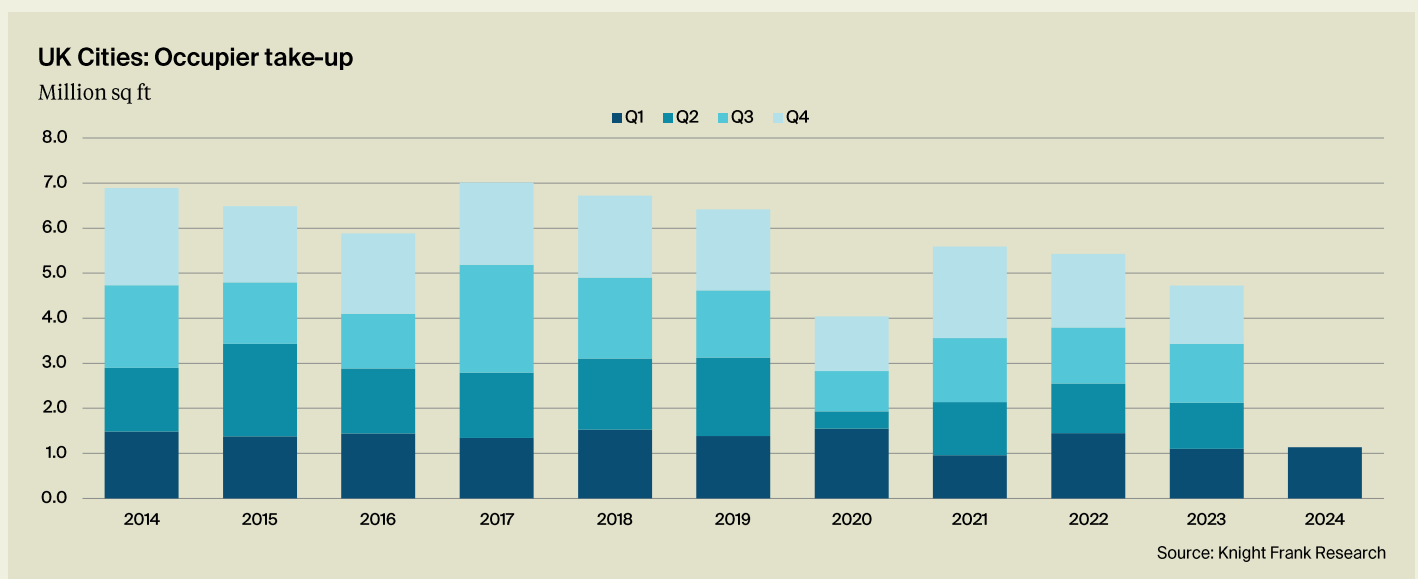
CAN SUPPLY MEET DEMAND?

Across the regional cities, the limited supply of best-quality stock is creating a supply and demand imbalance. Despite the rising occupier preference for new and grade A space, it accounted for just 50% of take-up in the first quarter of 2024, in line with the total for 2023. That said, five out of ten cities registered a percentage of above 50, with the proportion as high as 87% in Leeds. Further development is necessary to meet the current level of occupier demand.

EARLIER OCCUPIER ACTION FUELLING RENTAL GROWTH

Occupiers are needing to engage with the market earlier ahead of lease events to secure the right space. At the end of Q1, availability of new and grade A stock stood at 3.34m sq ft, 6% below the previous quarter. Although this is 9% above the 5-year average, it is the supply of the very best stock that is constrained, which accounts for a fraction of the market.

Looking forward the development pipeline is limited, with an expected shortfall of 2.76m sq ft by 2027. A third of the UK cities tracked have seen prime rental increases this quarter, and this is expected to continue as occupiers try to secure the highly competitive incoming stock ahead of completion.



[ECONOMIC
UPDATE](#)

[CAPITAL
MARKETS](#)

[OFFICES](#)

[INDUSTRIAL &
DISTRIBUTION](#)

[RETAIL &
LEISURE](#)

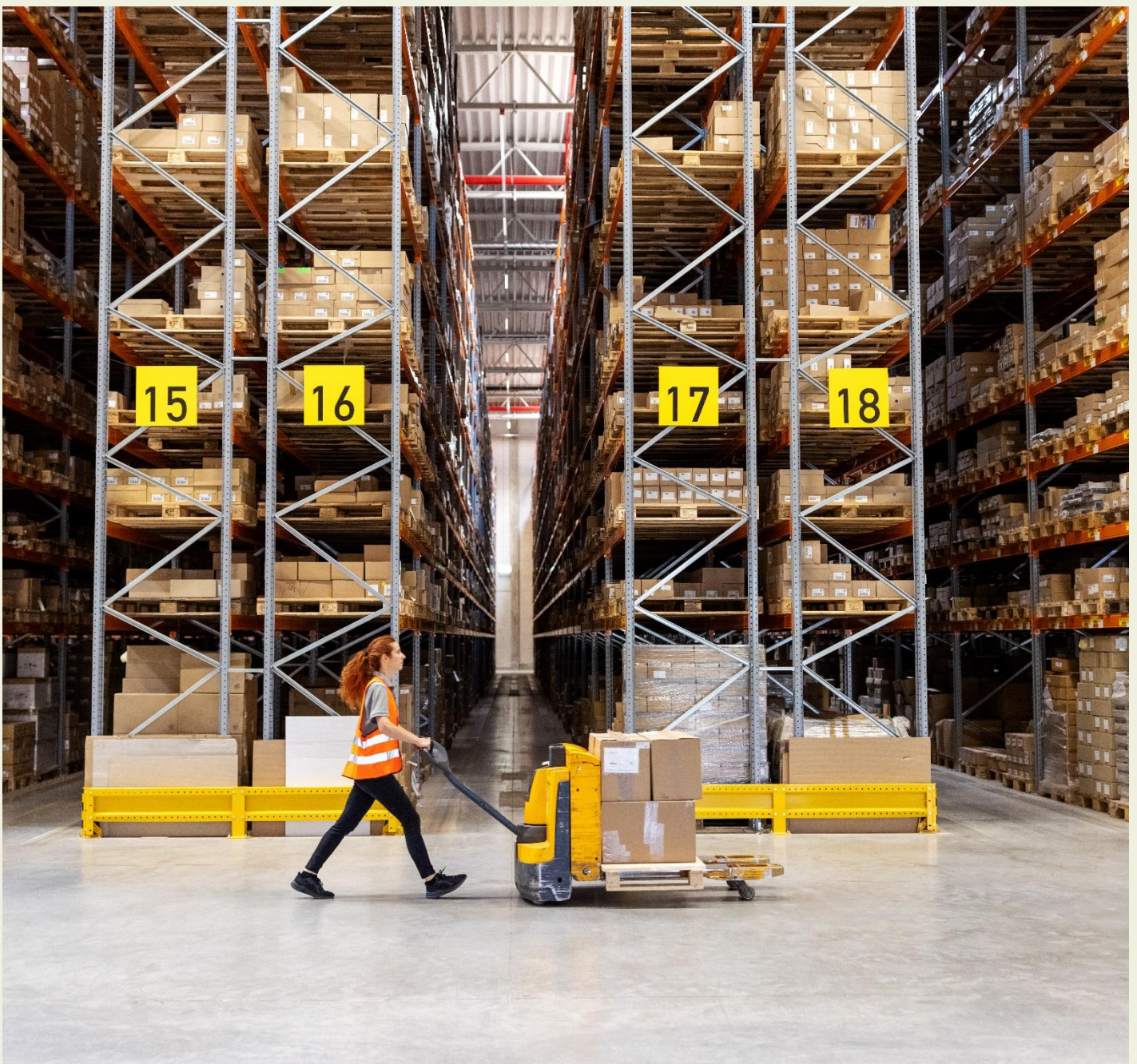
[SPECIALIST
SECTORS](#)

[CONTACTS](#)

Industrial & distribution

Investment and occupational markets

CONTACT: [DEIRDRE O'REILLY](#)



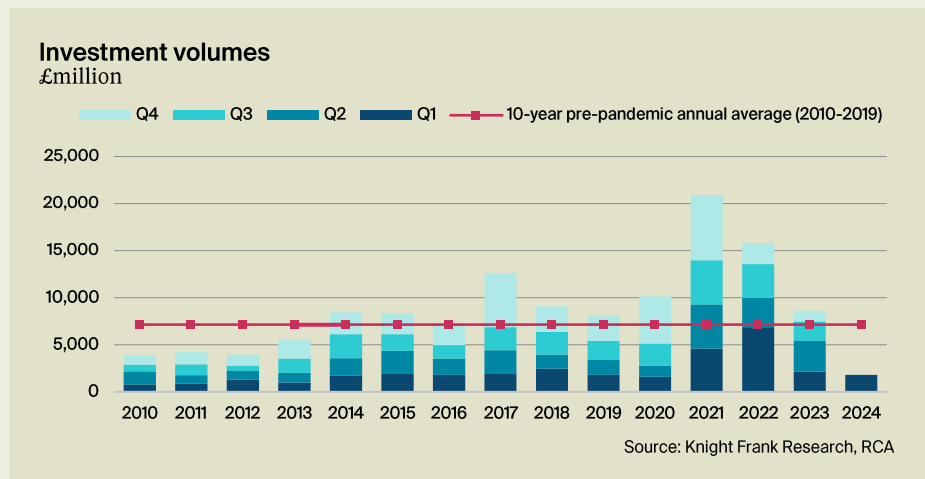
Industrial & distribution

Although challenges remain in the investment market, stabilised values offer confidence to buyers and sellers

INVESTMENT VOLUMES ANTICIPATED TO IMPROVE THIS YEAR

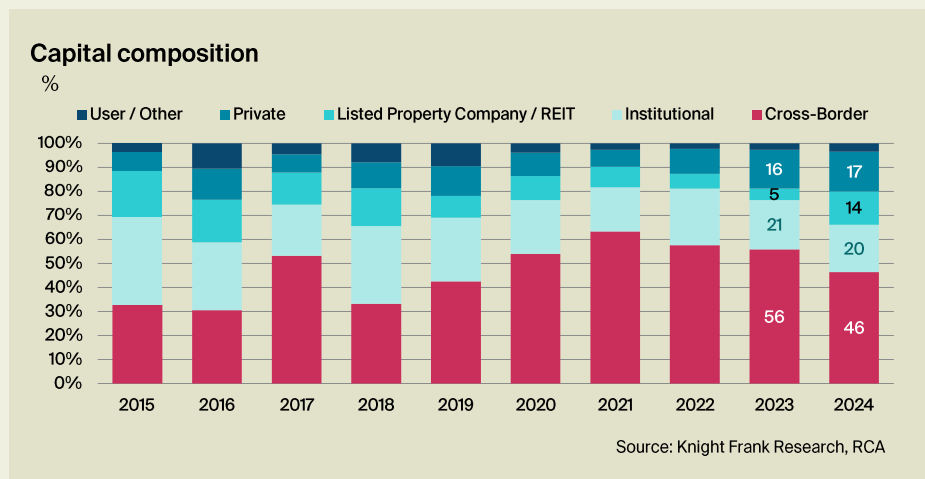
Investment figures for Q1 2024 show £1.8 billion invested in the UK industrial sector, +59% ahead of Q4 2023, but -15% lower than Q1 of last year. Transaction volumes remain challenged by a dearth of large-scale opportunities and a lack of willing sellers, as sellers have been focusing on more challenging asset classes such as retail and offices.

Activity is anticipated to improve throughout 2024, as stabilised values give buyers and sellers more comfort around new price levels. However, deal activity growth will be gradual.



INVESTOR PROFILE

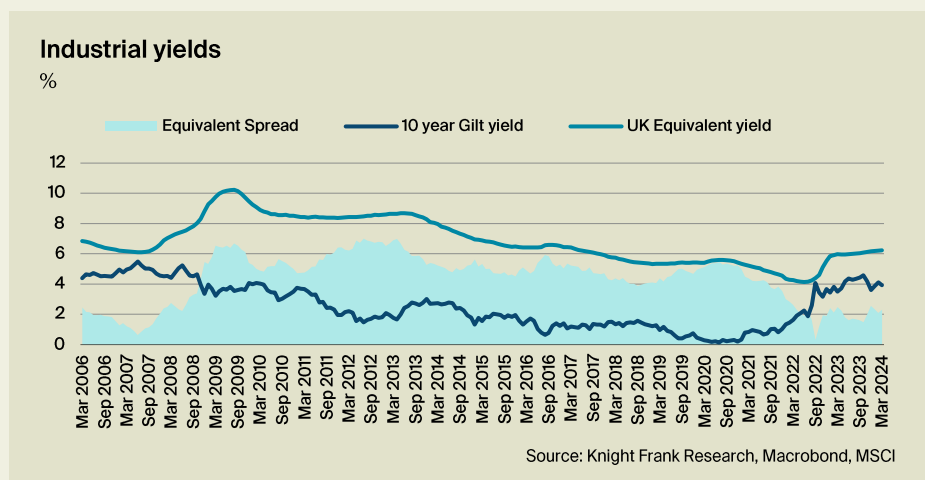
Cross-border capital continues to be the driving force in the market, though its share of the market declined in Q1, accounting for 46% of the investment total compared with 56% in 2023. REITs and Listed Property Companies have been more acquisitive so far this year, accounting for 14% of investment in Q1 2024, compared with just 5% in 2023.



BOTTOM OF THE MARKET?

Prime distribution/warehousing with 15-year income on open market rent reviews softened by 25bps in Q1, to 5.50%. Prime yields have softened by c. 200bps over the past two years.

There is now an increasing consensus that the bottom of the market has been reached for prime pricing, however, the diverging performance between core and secondary assets may continue. The UK industrial equivalent yield was 6.2% in March 2024, softening by 7bps since December 2023 and by 26bps since March 2023. However, the annual yield shift has continued to trend downwards every month since May 2023, when yields had moved out 188bps over the year, as the pace of repricing slows (MSCI).



[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

INDUSTRIAL & DISTRIBUTION

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

Industrial & distribution

Strong fundamentals and rental growth persist, despite lacklustre take-up and rising supply

TAKE-UP LEVELS FLAT

UK industrial take-up figures show 7.3 million sq ft of space committed in Q1 2024, just -0.2% below Q1 2023 volumes (units over 50,000 sq ft). Economic uncertainty, higher interest rates and rising operational cost pressures continue to weigh on occupiers, making them hesitant to commit to new facilities. Take-up is -27% lower annually to Q1 2024, at 30 million sq ft.

Although the figures for Q1 are relatively flat (YoY), there are some significant requirements in the market and a sizable amount of space under offer, which may help boost take-up from the second quarter onwards. The fundamentals underpinning occupier demand remain strong.

OCCUPIERS OFFERED MORE CHOICE

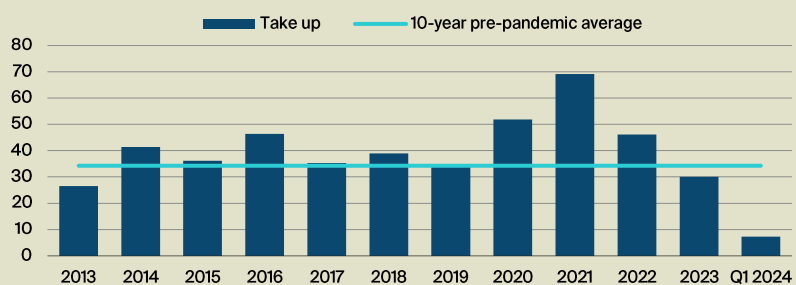
The vacancy rate continues to soften due to a combination of development completions and second-hand space returning to the market. Q1 saw the vacancy rate rise to 6.5%, from 5.5% in Q4 2023. However, as high inflation and debt costs have reduced the pace of new development starts, this will limit further increases to the vacancy rate. Indeed, the volume of speculative space under construction is down -48% over the year to Q1,

The slower pace in the occupier market has also meant less pre-let activity and, as occupiers are provided with more choice, an increasing focus on existing buildings. Take-up of second-hand space is 62% higher in Q1 2024 compared with Q1 2023, while take-up of new, speculatively completed space increased by +8.8%. Over half of Q1 2024 take-up was second-hand space, at 55%, up from 34% in Q1 2023.

PRIME OUTPACING WIDER MARKET

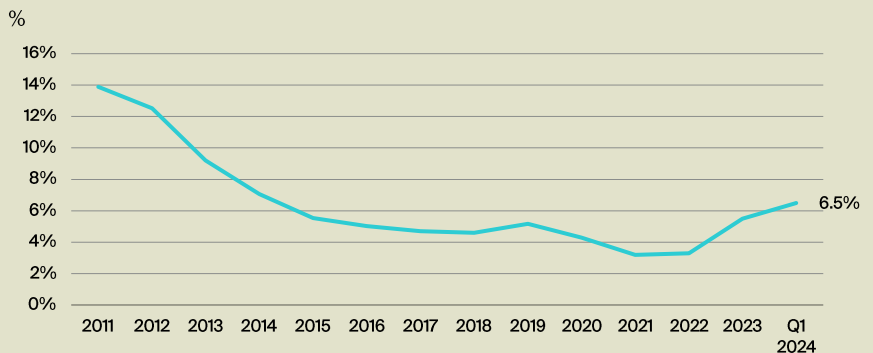
Annual market rental value growth in the year to March 2024 was +6.9%, down from +7.6% in December 2023 and +8.6% in March 2023 (MSCI). Though rental growth has slowed, new developments continue to set new headline rents, with rental growth for prime assets outpacing the wider market.

Take-up (units over 50,000 sq ft)
Million sq ft



Source: Knight Frank Research

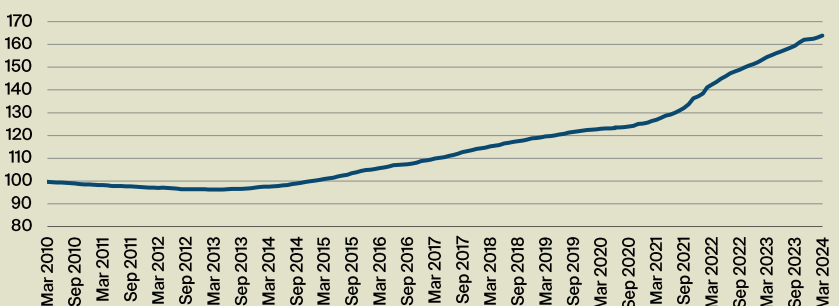
Vacancy rate



Source: Knight Frank Research

Average market rental growth

Jan 2010 = 100



Source: Knight Frank Research, MSCI

[ECONOMIC
UPDATE](#)

[CAPITAL
MARKETS](#)

[OFFICES](#)

[INDUSTRIAL &
DISTRIBUTION](#)

[RETAIL &
LEISURE](#)

[SPECIALIST
SECTORS](#)

[CONTACTS](#)

Retail & leisure

Retail, high street, shopping centres, out-of-town, leisure, foodstores and Central London

CONTACT: [EMMA BARNSTABLE](#)



Retail

The signs are increasingly positive, yet the investment market in particular has yet to fully spring into life

NO 'REBOUND' RECOVERY

Economist narrative on the consumer has swung dramatically from 'cost of living crisis' meltdown, to consumers now being the driving force behind the UK's economic recovery. The reality is more nuanced. Sentiment has improved (-21pts in Q1 versus -36pts in Q1 2023), with spend generally robust (values +3.8%) despite covering the quietest months of the retail calendar (Jan. / Feb.). Volumes did encouragingly return to positive growth (+0.2%), but category performance was mixed – with some worrying emerging trends in the likes of Clothing (vals. -0.8% / vols. -5.7%).

AN UPTICK IN OCCUPIER DISTRESS?

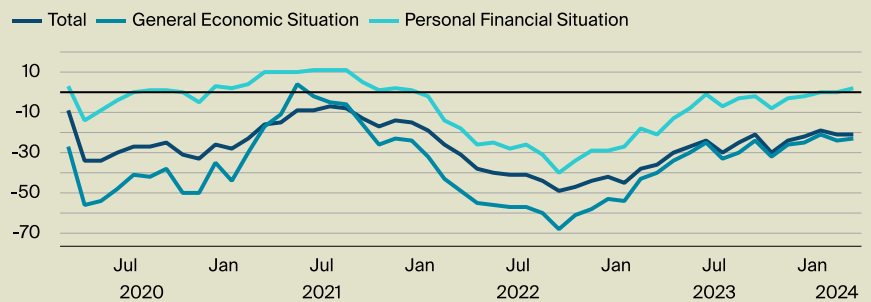
A spate of distress among high-profile players (The Body Shop, Lloyds Pharmacy, Ted Baker) triggered a rise in stores affected by administration / CVA in Q1 (308 stores), following a record-low year of fallout in 2023 (971). Distress in 2024 will inevitably be higher, aligning with historic averages, but confined to 'at risk' retailers on our KF watchlist. Occupier markets have generally shown increasing levels of stability, and steady trading, for some time. Modest and targeted expansion was underway in Q1, with retailers quickly taking advantage of newly available units from distressed occupiers, stabilising the vacancy rate at 14.0% for a third consecutive quarter.

INVESTMENT – STILL WAITING

The restrictive interest rate backdrop continued to challenge capital markets with c.£1.1bn worth of assets transacting, marking a deceleration on Q4 levels (£1.3bn). This was also below the 5-year (£1.5bn) and 10-year averages (£1.8bn). Retail Warehousing was the only sub-sector to see an uptick QoQ (+12%), with the sector running hot amongst institutional investors attracted to the fundamentals of affordability, adaptability and accessibility. Looking ahead, forecast data makes a renewed investment case for retail, with total returns expected to average 7.8% p.a. over the next five years, above offices (7.3%) and not far off industrial (8.1%).

Consumer confidence

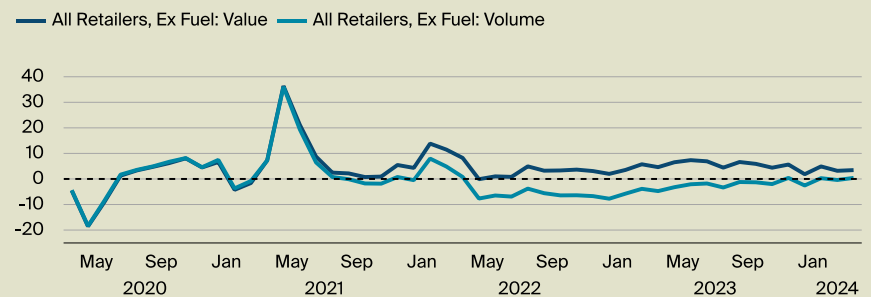
Confidence over the next 12 months



Source: GfK

ONS retail sales

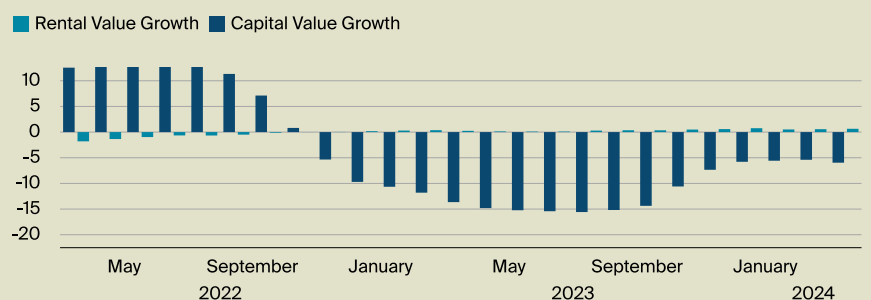
Monthly YoY change, %



Source: ONS

All retail – rental/capital value growth

Rolling 12 month % change



Source: MSCI

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

High street retail

A quiet quarter from both a consumer and investor perspective, with major occupier disruptions perhaps less severe than expected

WET WEATHER DETERS SHOPPERS

An unsettled, wet and generally dull weather period hampered high street shopping, with certain UK locations receiving up to three times their average rainfall in February alone. Visits generally lagged broader retail (Jan. -2.3%, Feb. -9.3%, March -1.5%), but with some UK cities bucking national trends in March (e.g. Liverpool +4.8%, Leeds +3.8%, Edinburgh +2.9% vs. London -4.6%). Spend data reflected ongoing inertia to splash the cash on new outfits for the upcoming spring season - Q1 Clothing & Footwear sales values declined -1.1% YoY and volumes were down -5.6%.

OCCUPIER FALLOUT LIMITED

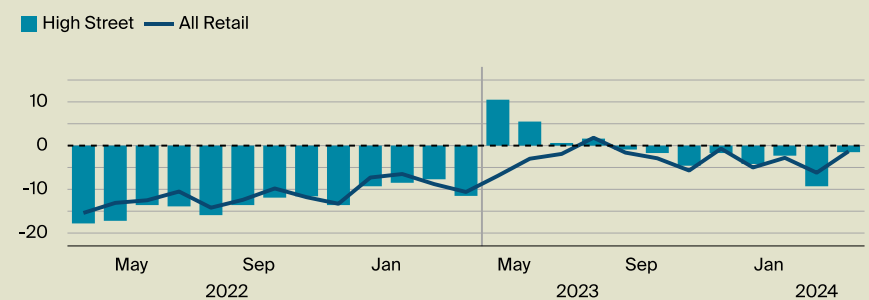
The fallout from major retail players did not have the disastrous impact some may have anticipated. Only 30% of The Body Shop's portfolio is on the high street, with just 11% of sites in 'weak' locations challenging to relet, according to LDC. Additionally, it identified 16 likely candidates to take over these spaces, based on recent leasing activity. Accordingly, vacancy rates are still improving rather than rising (-10bps to 7.5%) and are now -120bps lower than in Q1 2023. Rents continue to rise, increasing by +0.6% QoQ, compared to the wider retail market (+0.3%). This marks the fifth consecutive quarter of growth and a full year of rental growth rates outpacing the broader retail sector.

PRIVATE BUYERS ACTIVE

In step with wider retail capital markets, high street sales are yet to experience an uptick, with improving consumer sentiment and base rate cut expectations yet to filter through. Investment volumes totalled £71.9m in Q1, a deceleration on Q4 (£81.9m) and well below the five-year quarter average (£247m), as a lack of stock held back growing demand. Private investors were the most active buyers in Q1, with average lot sizes (£4.7m) smaller than in 2023 (£5.1m). Institutional activity was limited, with the acquisition of 34-56 Buchanan St (Glasgow) by Lothian Pension Fund one of the few major deals by this investor category.

High street footfall

Monthly YoY change, %, vs. 2019 levels

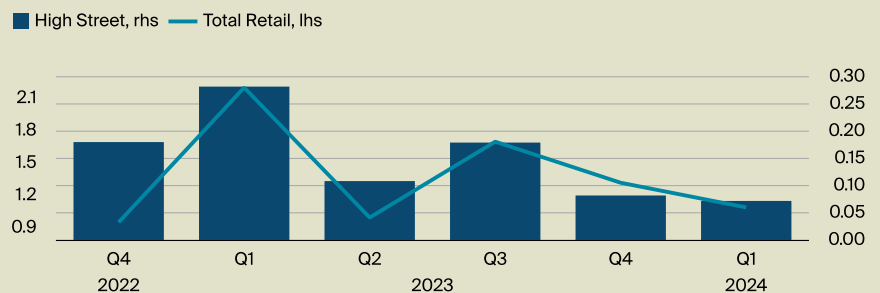


*March 2021 - March 2023 figures are compared to 2019 levels

Source: BRC / Springboard

High street investment volumes

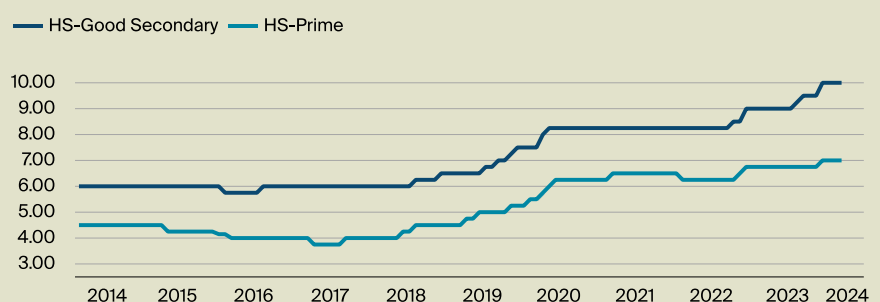
£million



Source: Knight Frank

High street yields

%



Source: Knight Frank

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

Shopping centres

The wheat still separating from the chaff: those centres with a purpose are prospering, those without are foundering - with a big grey area between these two extremes

UNEVEN CONSUMER DEMAND

The growing perception of a consumer rebound is at odds with the Q1 retail sales performance of many 'in-town' shopping categories. Many of the mainstays of the shopping centre market had a very difficult Q1, including Clothing (values -0.8%, volumes -5.7%), Footwear (-4.4%, -6.3%) and Jewellery (-5.3%, -7.6%). Fragile demand was exacerbated by deeply unhelpful weather across the quarter (especially in February), which manifested itself in volatile monthly footfall patterns.

OCCUPIER PUSH AND PULL

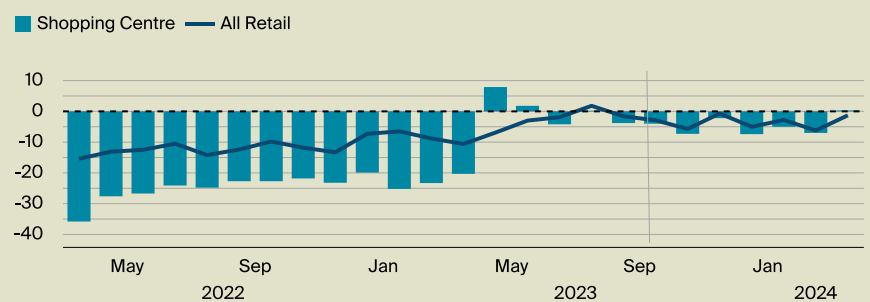
A wave of store closures from distressed retailers was offset by a fresh expansion push on the part of other players. The Body Shop reduced its UK footprint by around half during Q1, while Ted Baker closed 15 stores in the wake of its administration. The market is also braced for fallout from Superdry as it embarks on its survival plan. More positively, established operators such as Mango outlined plans to open new stores (20), recent overseas re-entrants such as Sephora unveiled the locations of its next new sites (MetroCentre and Eldon Square, Newcastle) and online pure-plays such as Sosandar announced plans to enter the store-based arena. Overall, the 'pull' of demand continues to marginally outweigh the 'push' of occupier retrenchment. Accordingly, the vacancy rate in shopping centres continues to trend down, albeit very slowly (-30bps to 17.4%).

WAITING FOR INVESTMENT MARKETS TO IGNITE

With no movement in interest rates nor shift in debt markets, there was limited impetus for investment markets to spring into life. Investment volumes totalled just £228m in Q1, down -47% on both Q4 and the corresponding quarter last year. There was some increased acquisition activity from non-leveraged/cash buyers and therefore smaller deal sizes dominated - the one exception being the £111m (12.7% NIY) purchase of Union Square in Aberdeen - also significant in that it marked the return of Lone Star to the UK shopping centre market.

Shopping centre footfall

Monthly YoY change, %, vs. 2019 levels



*March 2021 - March 2023 figures are compared to 2019 levels

Source: BRC / Springboard

Shopping centre investment volumes

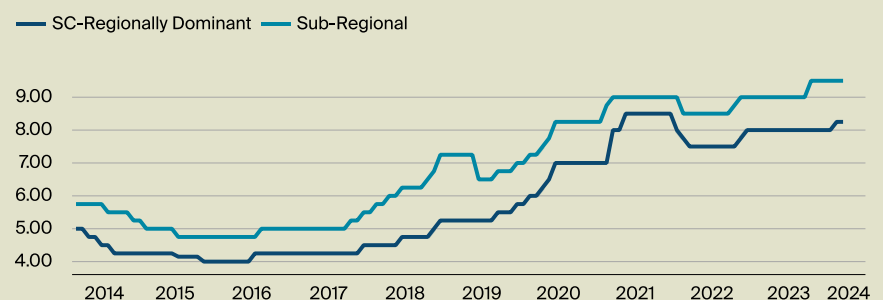
£million



Source: Knight Frank

Shopping centre yields

%



Source: Knight Frank

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

Out-of-town

The stars are starting to align but yet to spark widespread action amongst investors – meaning now could be the time to act

CONVENIENCE STILL KING

Consumer appetite for convenient, out-of-town shopping experiences prevailed. Footfall trends were resilient versus other retail sub-classes, as wet weather drove shoppers to locations with easy parking and ‘grab-and-go’ amenity. There was some softening of demand in select out-of-town categories, with the Major Purchase Index only marginally improved (-27pts) vs. 12 months ago (-33 pts). In Q1 Non-Food retail sales did return to volume growth of +0.2% (and values +2.5%), with Cosmetics (vals. +10.7% / vols. +6.6%) and Pets & Garden Centres (vals. +8.7% / vols. +8.5%) sales strong. But there were slumps across Clothing (-0.8% / -5.7%), Carpets (-1.0% / -2.6%) and Furniture (-5.9% / -4.2%).

OCCUPIER OPENINGS DRIVING RENTAL GROWTH

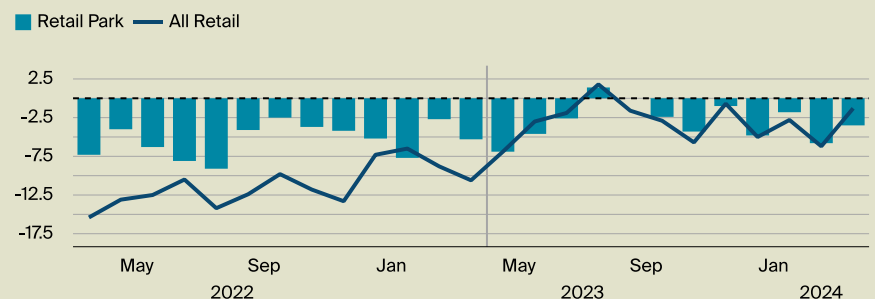
Occupationally, Retail Parks were the only retail sub-class to see net occupancy growth of +0.3% in 2023, according to PwC store openings data, outshining Shopping Centres (-2.5%) and High Streets (-3.3%). Fastest growing outlet types included takeaways (+151 units), food-to-go (+131), supermarkets (+40) and petrol stations (+48). This spurred rental growth of +0.4% QoQ, marking the fifth consecutive period of growth.

INVESTORS FAILING TO STRIKE WHILST IRON IS HOT?

The investment market is where the figurative spark is missing most, although Retail Warehousing did outperform the wider retail market as the only sub-sector to see an uptick (+12%) in transactions, totalling £386m in Q1. Institutional demand accounted for approximately 49% of this volume. Stock shortages are expected to further sharpen yields to sub 6.00%, against a backdrop of low voids, anticipated rental growth, and supported by substantial institutional requirements. Looking forward, forecast data underscores the case to ‘buy now and pay less’ than in six months’ time – for an asset class destined to deliver higher total returns than any other over the next five years (9.4% p.a.).

Retail park footfall

Monthly YoY change, %, vs. 2019 levels

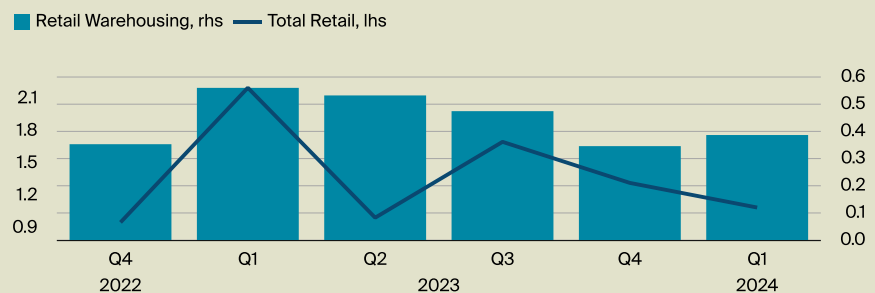


*March 2021 – March 2023 figures are compared to 2019 levels

Source: BRC / Springboard

Retail warehousing investment volumes

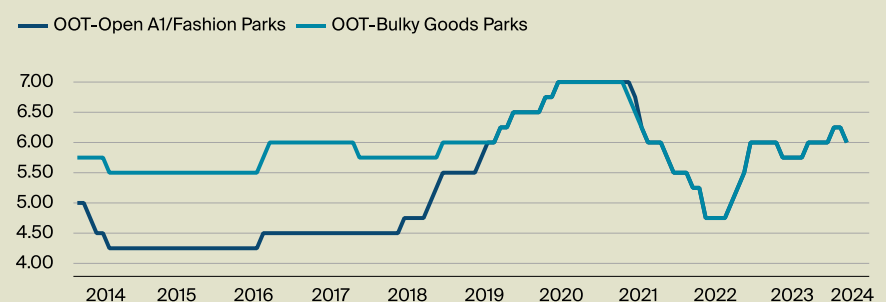
£million



Source: Knight Frank

Retail warehouse yields

%



Source: Knight Frank

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

Leisure

Pressures persist, yet a slower rate of site closures and a revival in casual dining openings provide hope for cautious optimism

LEISURE STILL A PRIORITY

Consumer spend on leisure pursuits in Q1 was buoyed by key events including Mother's Day and St Patrick's Day, alongside an early Easter bank holiday. Barclaycard data showed good YoY spending growth across the Hospitality and Leisure segment (Jan. +6.6% / Feb. +5.3% / March +4.7%), predominately led by Bars, Pubs, & Clubs (March +3.2%), and Takeaways & Fast Food (+3.0%) formats, rather than Restaurants (-12.6%). This was underscored by reports of above-inflation YoY sales growth of +5.2% for managed hospitality groups in March, according to CGA.

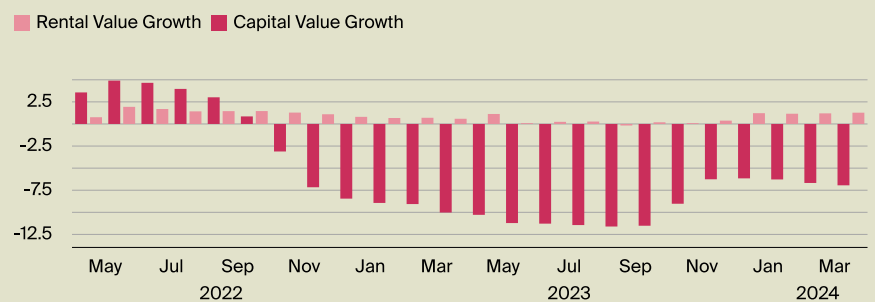
GROUNDS FOR OPTIMISM?

Many operators remain in a fragile state, but inflation improvements saw operating challenges ease and site closures moderate - giving grounds for cautious optimism. Q1 closures slowed to just four a day versus the average eight in 2023. Green shoots of recovery are starting to be evident, with encouraging emerging trends in select segments. Casual dining outlets finally saw openings start to outstrip closures, with a +0.7% net increase in sites in Q1. This compares to a -21.0% combined net decline between March 2020 and December 2023.

MERGERS UPLIFT DEAL VOLUMES

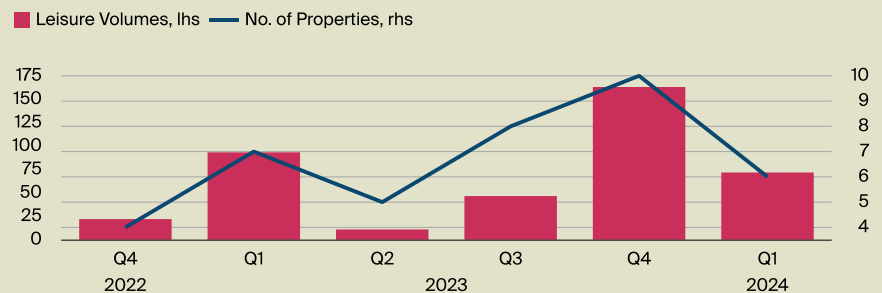
Q1 volumes totalled £71m according to RCA data, marking a deceleration on Q4 levels but an increase on the 5-year quarterly average (£66m). Volumes were inflated by two major corporate mergers between LXI REIT and LondonMetric, and Tritax Big Box and Abrdn managed UK Commercial Property REIT (UKCM). LXI REIT brought with it a series of long-income leisure assets, a lineup of healthclubs, gyms, pubs, and theme parks let to the likes of PureGym and David Lloyd. Tritax assets merged with UKCM included The Rotunda (Kingston), Regent Circus (Swindon) and a Cineworld in Glasgow.

Leisure – rental / capital value growth
Rolling 12 month % change



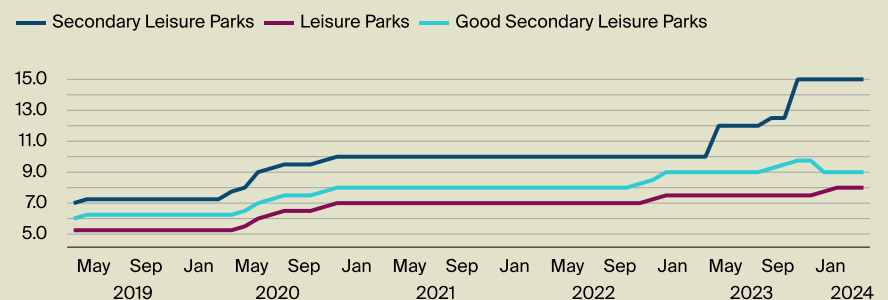
Source: MSCI

Leisure investment volumes
£million



Source: RCA

Leisure yields
%



Source: Knight Frank

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

Foodstores

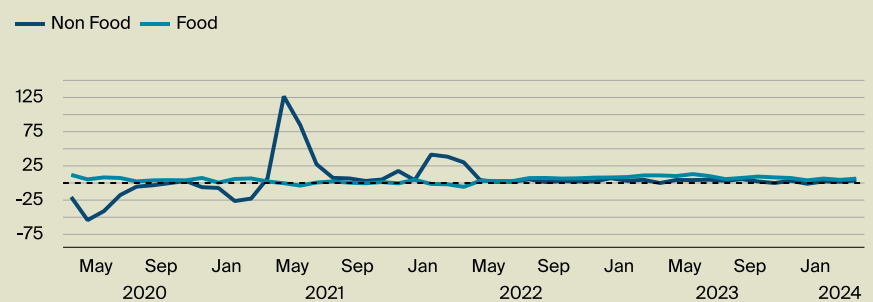
First-time supermarket investors target opportunity amid debt-laden operators' sale and leaseback deals

EASING GROCERY PRICE INFLATION

Grocery sales were positive across Q1, with Barclaycard data showing robust YoY spend and transaction growth (Jan. +5.2%/+4.9%; Feb. +3.8%/+3.5%; March +2.7%/+2.8%). Food inflation decelerated to 4.5%, the lowest level since February 2022, and below the eye-watering peak of 17% in March 2023. With cash going further, shoppers started to switch back to branded sales (+6.1%) which pushed ahead of own-label (+4.7%) in March. Shoppers still sought value, with premium own-label sales growing +16.1%, the highest growth rate in nearly three years.

Food vs. non-food retail sales

Monthly YoY change, %



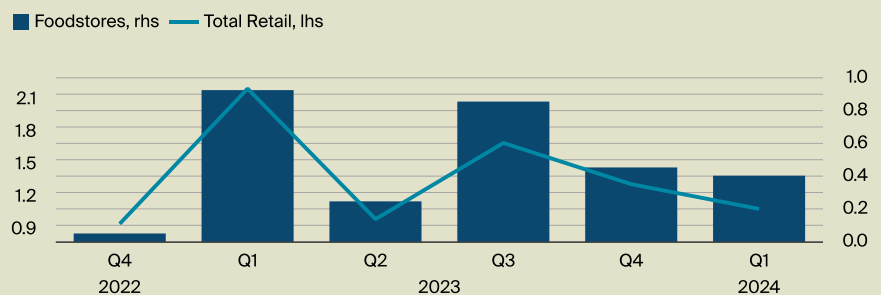
Source: ONS,

ASDA GROWS MARKET SHARE

Tesco, Sainsbury's and Morrisons all lost market share to competitors in Q1. Asda successfully regained ground following its acquisition and conversion of EG Group and Co-op petrol forecourts to the Asda Express fascia, growing its market share by +0.2 percentage points to 13.8%. Discounter Aldi saw the strongest gains (+0.5 percentage points to 9.8% market share) under its aggressive growth target of 1,500 stores. Ocado also improved its share, albeit achieved through heavy discounting (+0.2pp to 1.9%). Both Lidl (7.8%) and Co-op (5.5%) grew their market shares by +0.1pp respectively.

Foodstore investment volumes

£million



Source: Knight Frank

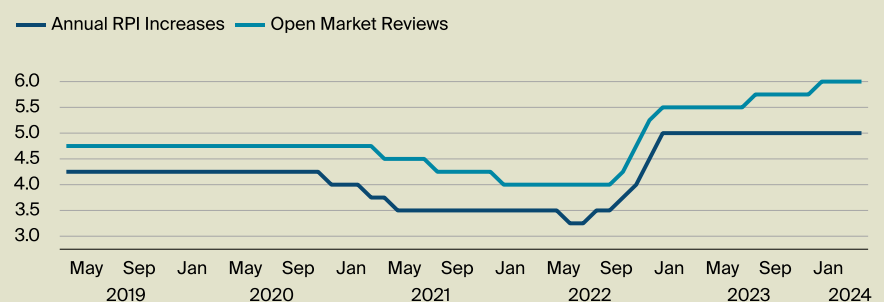
FOODSTORE FUNDAMENTALS

ATTRACT FIRST-TIME INVESTORS

Investment volumes totalled £402m in Q1, below the 5-year average (£415m), as elevated interest rates dampened activity. Although volumes were down -11% QoQ, more deals completed (16), with average lot sizes (£25m) smaller than in Q4 (£95m), due to fewer portfolio deals. Individual sale and leaseback transactions drove the market as debt-laden operators (Morrisons, Asda) sought to improve their balance sheets, attracting first-time foodstore investors. WP Carey acquired Morrisons in Doncaster for £23m from Abrdn as part of its shift away from the office sector, and Lodge Quai entered the UK via the acquisition of two Morrisons in Loughborough and Ilkeston for c.£45m.

Foodstore yields

%



Source: Knight Frank

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

Central London

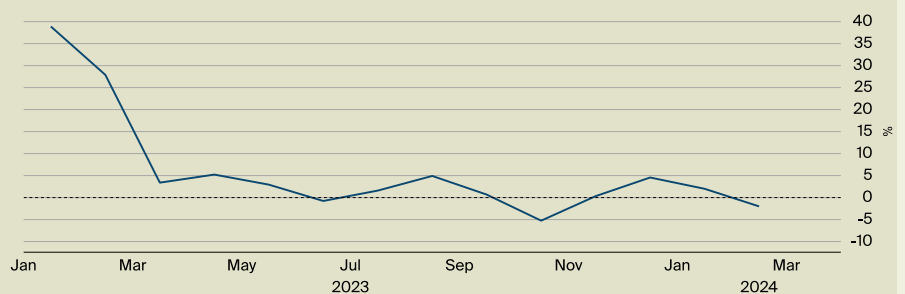
New flagships and estate deals boost investment, despite growing concerns over tax-free shopping loss

FEARS LONDON IS LAGGING

Fears that the loss of tax-free shopping has created a ‘spending gap’ between London and its European competitors grew stronger, as NWECE published its latest data. International visitor numbers in 2023 were just -4% below 2019 levels, but spend was disappointingly lower at -19%, with the widest gap amongst the most affluent visitors from the Gulf, Saudi Arabia, the UAE, Qatar and Kuwait. 2024 NWECE figures show the gap is persisting, with January spend falling -7% YoY, despite a +2% increase in footfall and a +13% increase in hotel occupancy.

West End footfall

Like-for-like change % versus 2022



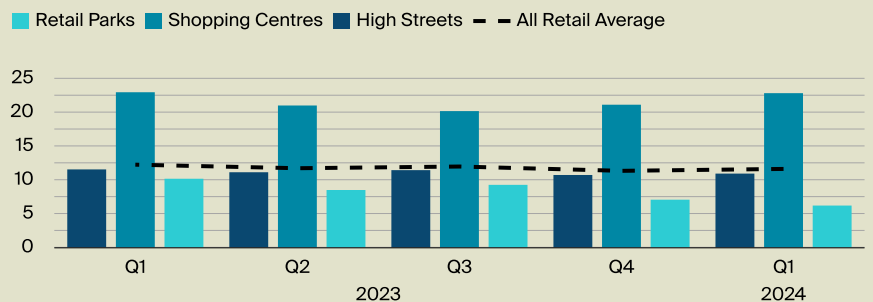
Source: New West End Company

RETAILERS BRAND BUILD WITH STORES

Despite concerns over European competition, London is still proving a popular destination for domestic and international retailers seeking to brand build. Wolf & Badger opened its first flagship on Soho’s Berwick St. Gymshark announced its second store in Westfield Stratford, following its debut on Regent Street. Lululemon will relocate and upsize its Covent Garden flagship to a store 130% larger. Vacancy rates did inch up +20bps to 10.8%, but are -30bps lower than a year ago. The increase was driven by Shopping Centres, where rates rose +60bps to reach 15.1%.

Vacancy rates

% units



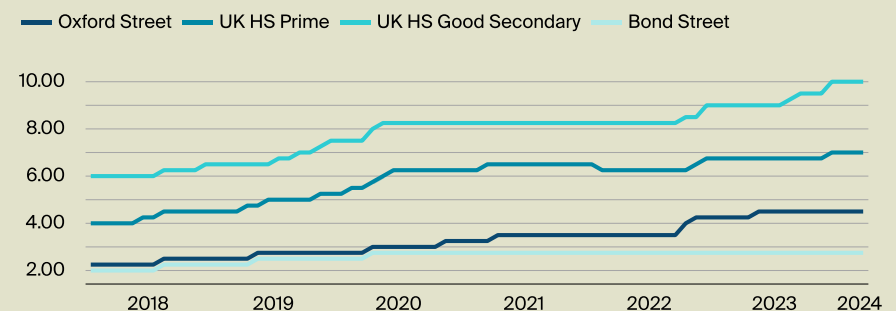
Source: Local Data Company

ESTATE DEALS BOOST VOLUMES

Transactions totalled £202m in Q1, above the 5-year quarter average (£199m), and a massive uptick on Q4 levels (£18.7m), according to Rc. Volumes were boosted by a handful of sizeable estate/mixed-use deals. Ares Management acquired a large portion of Shaftsbury Capital’s Fitzrovia Estate for a reported £65m. Easternmed Asset Management acquired the South Molton Estate from the City of London Corporation – the first time the portfolio has changed hands for hundreds of years. Comprising 53 buildings, the estate is home to high-end retail brands including Sandro, Maje, and BA&SH. Another sizeable deal was Shaftsbury Capital’s acquisition of 25-31 James Street, Covent Garden, for £75.1m, complementing its existing ownership.

Yields

%



Source: Knight Frank

[ECONOMIC
UPDATE](#)

[CAPITAL
MARKETS](#)

[OFFICES](#)

[INDUSTRIAL &
DISTRIBUTION](#)

[RETAIL &
LEISURE](#)

[SPECIALIST
SECTORS](#)

[CONTACTS](#)

Specialist sectors

Data centres, healthcare & life sciences

CONTACT: DATA CENTRES – [DARREN MANSFIELD](#), HEALTHCARE – [RYAN RICHARDS](#),
LIFE SCIENCES – [JENNIFER TOWNSEND](#)



Data centres

Growing data demands, falling vacancy, pre-leasing tendencies, power limitations, and new tech growth in Artificial Intelligence will drive data centre trends in 2024

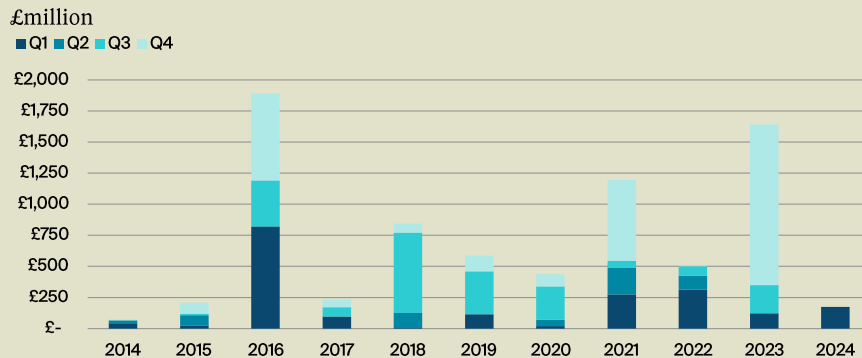
INVESTMENT VOLUMES ON THE UP

In Q1 2024, investment volumes totalled £175 million, marking a 43% uptick on Q1 2023 volumes. Knight Frank advised on the purchase of the former Mercure Hotel in Watford, which stands as the UK's largest deal this quarter.

Although transaction volumes in Q1 2024 were behind those of Q1 in both 2021 and 2022, over the past three quarters, the volume of activity has consistently surpassed that of the corresponding quarters in previous years.

At the onset of Q2, Blackstone acquired a £180 million site in Northumberland, with deployment expected to support AI-based applications.

Investment volumes



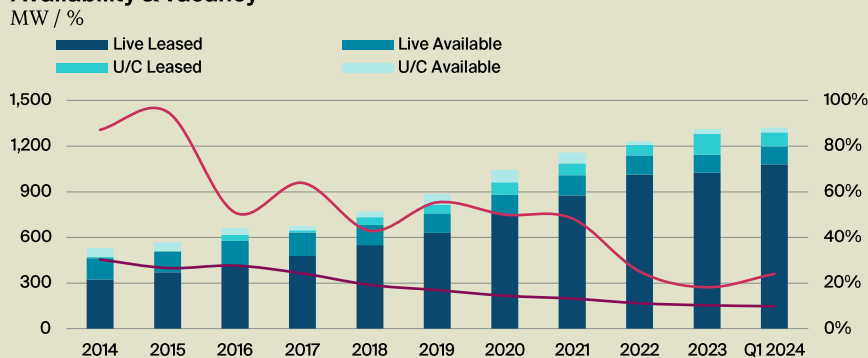
Source: Knight Frank Research, RCA

A GROWING PRE-LEASE CULTURE

Market availability across the UK continues to tighten, now operating at a sub-10% vacancy rate. As a result, the market is witnessing a growing trend of pre-leasing, with over three-quarters of volumes under construction being pre-let.

In London, particularly in its core western markets, the vacancy rate consistently remains below 5%, with volumes under construction being 76% pre-let.

Availability & vacancy



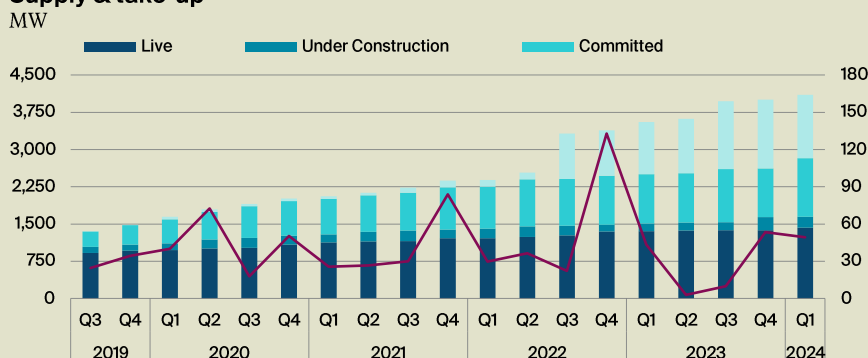
Source: Knight Frank Research

TAKE-UP VOLUMES BACK ON TRACK

After a successful end to 2023, take-up volumes have remained robust during Q1 2024, with 49MW worth of space transacted. This follows the successful pre-leasing of the remaining 48MW at Ark's Union Park.

The growth of live IT continues to be impeded by power availability, particularly in west London. Key energy infrastructure projects in this region, such as Iver-B, are facing delays until 2029. New applicants today can expect to wait until at least 2034 for new allocations.

Supply & take-up



Source: Knight Frank Research, DC Byte

Healthcare

2024 picks up where 2022 seemingly left off

AN UPBEAT START TO THE YEAR SUGGESTS POSITIVE THINGS TO COME

2023 carried on 2022's trend of general uncertainty, with investors stepping back to gauge markets; recorded volumes closed at c.£1.2bn. There was, however, continued movement towards normality in operator trading. This, in line with improved operator trading, as discussed in our annual [Care Homes Trading Performance Review](#), is a welcome boost to sector confidence. Overseas capital dipped again this year, accounting for 25% of transactions, down from 31% and even further from its long-term average. Average annualised returns sat at 4.4% at the end of Q4 2023, up from 3.50% in the previous period. This, as always, highlights the healthcare sector's strength in terms of stability of returns. The overall outlook for the healthcare sector is undoubtedly positive, with key market participants already transacting in Q1 2024.

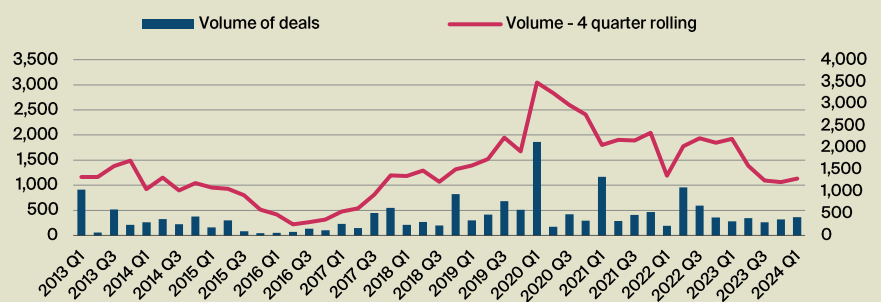
OVERSEAS CAPITAL CONTINUES TO PLAY IT SAFE

While we have seen a reasonable fall in overseas capital deployed lately, this repositioning has also been influenced by more active institutional capital, which is taking a share of volume.

Another sign of the positive sector sentiment is the extent to which we see active domestic capital. 2022 saw REITs and private capital eat into the share of transaction volume attributed to overseas capital. However, 2023's volumes also saw more activity from institutional investors. Consistent and organic transaction levels without large outlier portfolio deals suggest the sector is experiencing sustainable demand.

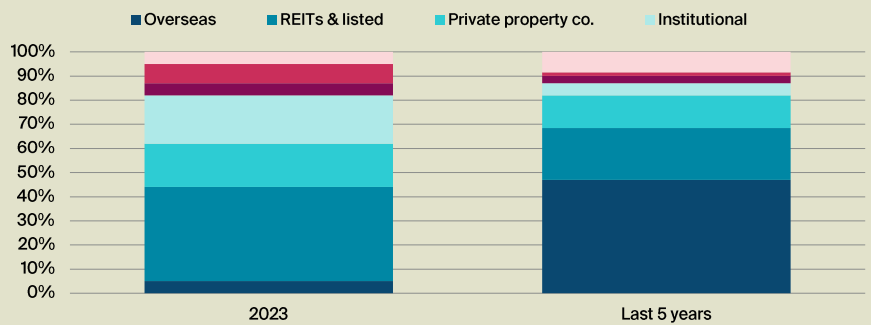
The return to more significant volumes will result from the normalisation of the sector, continued organic demand, and a few portfolio deals that will loosen the pockets of investors. For the year ahead, we anticipate the sector will regain its momentum in relation to recorded transactions.

Recorded healthcare property transactions
£million



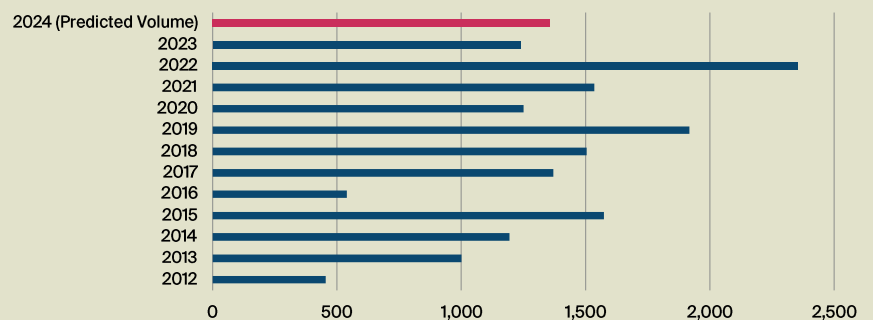
Source: Knight Frank Research

Healthcare property transactions by buyer type



Source: Knight Frank Research

Anticipated transaction volume



Source: Knight Frank Research

Healthcare

Demand continues to outpace supply in the long run

OPERATOR TRADING CONTINUES TO NORMALISE

Following on from Knight Frank's 2023 [Care Homes Trading Performance Review](#), which highlighted an improvement of 6% in average occupancy levels, operator trading continues to strengthen. Most corporate operators are trading at pre-pandemic levels, as well as a number of investors reporting strong operational performance amongst their portfolios.

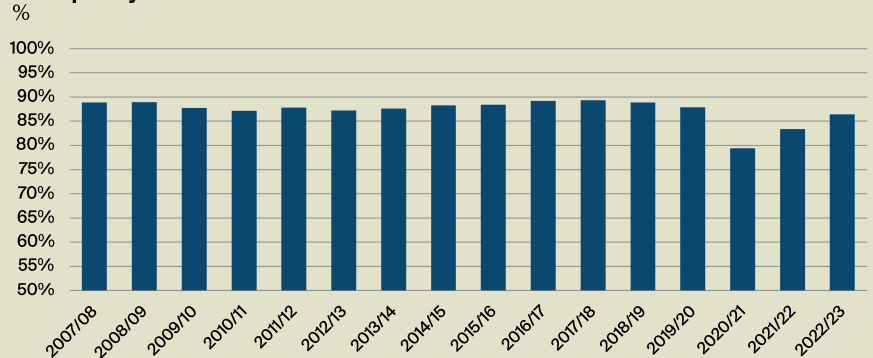
MINIMAL BED SUPPLY GROWTH

While we saw a reported 115 new openings, it is worth noting that 85 of these were new, modern purpose-built homes. Assuming these are within the average size range of 68 beds, this is a minimal amount of bed additions when coupled with the yearly home closures. This leaves bed supply at c.481,000, a level that suggests a modest growth of 3% over the last decade in comparison to the growth in the over-65 population of 16.2% over the same period.

These key figures mean that the UK's elderly population are still on course to hit capacity by the end of the decade and be in a substantial deficit by 2040.

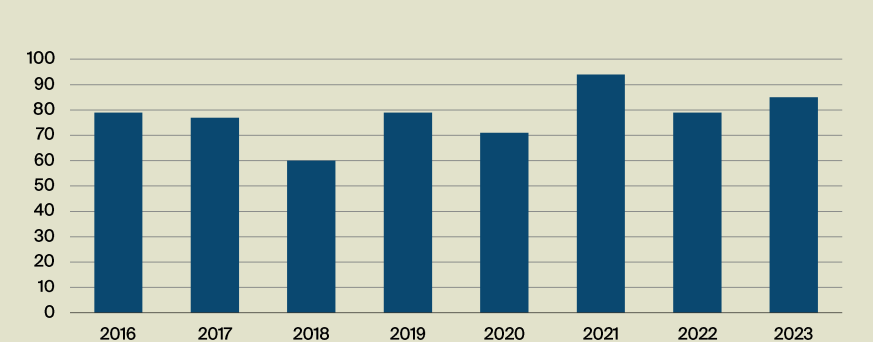
The demand/supply statistics and rate at which the over-65 population continues its growth has and continues to be a fundamental driver for the sector.

Occupancy %



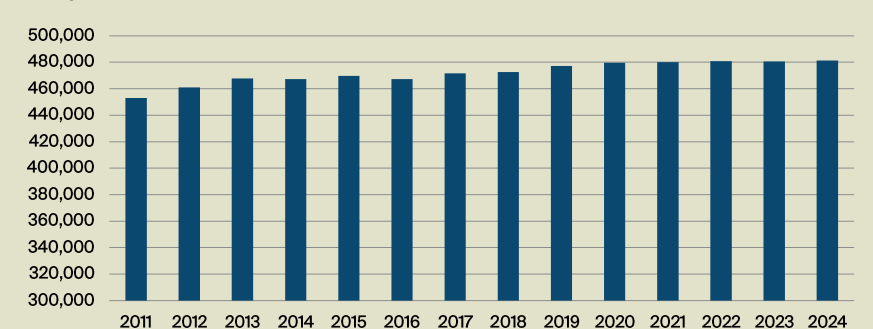
Source: Knight Frank Research

New UK care homes completed



Source: Knight Frank Research

Elderly Care Home Beds



Source: Knight Frank Research

[ECONOMIC UPDATE](#)

[CAPITAL MARKETS](#)

[OFFICES](#)

[INDUSTRIAL & DISTRIBUTION](#)

[RETAIL & LEISURE](#)

[SPECIALIST SECTORS](#)

[CONTACTS](#)

Life sciences

The sector remains resilient despite economic headwinds, but increased investment and continued efforts to tackle growth barriers are crucial for further expansion

THE RETURN OF VENTURE CAPITAL FUNDING?

Although venture capital funding has yet to return to its five-year quarterly average or the heights achieved during the pandemic, there was a promising 35% increase QoQ in funding levels. This was in stark contrast to the wider 45% decline across all sectors. This highlights the sector's continued allure to investors.

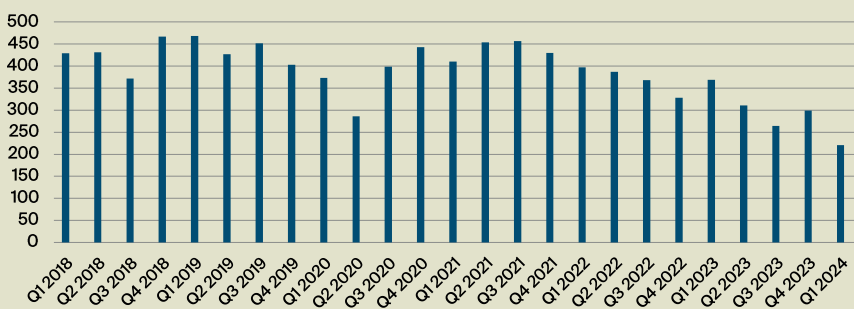
Nevertheless, a reduction in the number of VC deals suggests a sustained trend towards more discerning investment choices amidst wider economic uncertainties, potentially leading to interim deferment of acquisitions as additional funding is secured.

Momentum is also apparent through the welcome and substantial recent investments from major corporations like GSK, AstraZeneca, and BioNTech. Big pharma companies are restructuring and investing in R&D, which should translate into further demand.

The continued attention given to life sciences in the Spring Budget and the Labour Party's strategic plans is a positive. However, government announcements supporting the sector's growth are not new. Addressing known hurdles, tapping into new funding sources, and maintaining a sustained focus are critical to future growth.

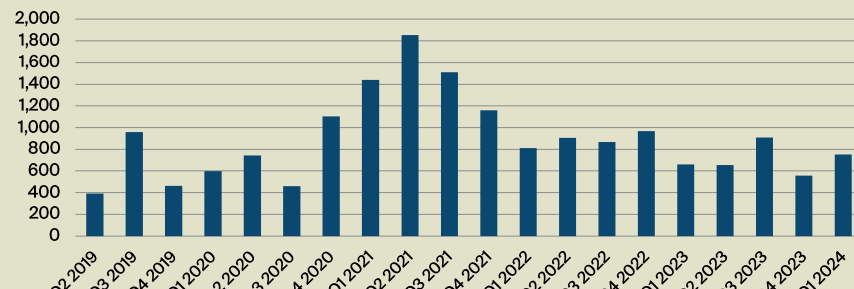
Online life sciences job vacancies decreased 26% YoY and are down by 9% since the start of January 2024. London is the number one location for current vacancies, with over 1,000 advertised roles.

UK clinical trial study starts
Number of clinical trial studies started in the UK



Source: Knight Frank Research, Clinicaltrials.gov

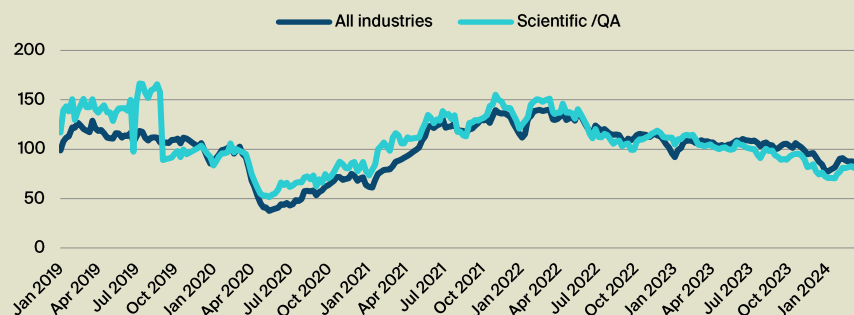
UK life sciences venture capital funding
VC funding into UK life sciences companies, £million



HQ only. Completed deals and full transactions only. Covers: Biopharma, MedTech and Digital health. Data as at 06/04/2024. The data in PitchBook is continuously updated to reflect the most current information. As a result, historical data may change over time.

Source: Knight Frank Research, PitchBook

Vacancies for scientific and QA roles UK
Scientific & QA weekly job adverts, index 100: average February 2020



Source: Knight Frank, Adzuna

[ECONOMIC
UPDATE](#)

[CAPITAL
MARKETS](#)

[OFFICES](#)

[INDUSTRIAL &
DISTRIBUTION](#)

[RETAIL &
LEISURE](#)

[SPECIALIST
SECTORS](#)

[CONTACTS](#)

Life sciences

Golden Triangle life sciences take-up increases 25% year on year

TAKE-UP INCREASES AMID TIGHT SUPPLY, HOWEVER ACTIVE DEMAND FOR LAB SPACE CONTRACTS AS OCCUPIERS TAKE STOCK

Life sciences take-up in the UK's Golden Triangle was c.186,000 sq. ft in the first quarter of 2024, up 25% YoY. Life sciences take-up in Oxford was c.142,000 sq ft in Q1, 215% above the five-year average and up more than 900% versus the previous quarter while London life sciences take-up increased 48% versus Q4 2023 to c.23,500 sq ft, both positive increases despite still showing relatively modest overall take-up. Meanwhile, Cambridge take-up decreased 86% QoQ to 20,000 sq ft.

Key leasing deals during the period included Diamond Light Source expanding its presence by c.64,325 sq ft at its Harwell Campus in Oxford and invoX leasing the entire lab-enabled 20,000 sq ft Franklin Building at Granta Park in Cambridge on a short-term basis, ahead of a planned repositioning.

Our data on active demand for lab space shows a slight QoQ reduction to c.1.66m sq ft, as we have removed enquiries which are delayed due to funding requirements. Available lab space remains constrained. Across the Golden Triangle, just over 400,000 sq ft of lab space was available at the end of Q1.

Beyond life sciences, we continue to monitor real estate requirements from the broader innovation economy. The education sector, a key component of innovation ecosystems, acquired upwards of 800,000 sq ft of space throughout the UK in 2023. This sector demands closer attention given that academia is not only a crucial component of a successful life sciences ecosystem but also fosters relationships with big pharma and drives start-up activity.

LIFE SCIENCES REAL ESTATE INVESTMENT BOOSTED BY 1 TRITON SQUARE DEAL

Investment in life sciences commercial real estate across the Golden Triangle reached £229.6m in Q1 2024. This was the highest quarterly figure since Q1 2023. However, it should be noted that this volume was largely driven by one transaction - British Land's sale of a 50% stake in 1 Triton Square to RLAM. The two parties have formed a 50:50 joint venture to transform 1 Triton Square into a building dedicated to science and innovation at Regent's Place in Euston, London.

[ECONOMIC
UPDATE](#)

[CAPITAL
MARKETS](#)

[OFFICES](#)

[INDUSTRIAL &
DISTRIBUTION](#)

[RETAIL &
LEISURE](#)

[SPECIALIST
SECTORS](#)

[CONTACTS](#)

Key contacts

Click on the relevant button below to meet the team

[Offices](#)

[Retail](#)

[Logistics & Industrial](#)

[Healthcare](#)

[Life Sciences](#)

[Data Centres](#)

[Student Property](#)

[Automotive](#)

[Capital Markets](#)

[Valuation & Advisory](#)

[Debt Advisory](#)

[Restructuring & Recovery](#)



William Matthews
Partner, Department Head
Commercial Research
william.matthews@knightfrank.com
+44 20 3909 6842



Antonia Haralambous
Associate
Commercial Research
antonia.haralambous@knightfrank.com
+44 20 3866 8033

Knight Frank Research Reports are available at knightfrank.com/research