UK Real Estate Navigator

Q2 2024

A quarterly review of the UK commercial real estate market

knightfrank.com/research

Economic update

Global and UK economy

CONTACT: VICTORIA ORMOND, CFA

Global economy

Rate cuts seen from several central banks - will the US be next?

GLOBAL OUTLOOK: GLOBAL GROWTH OUTLOOK IMPROVED AMID SOME EQUITY MARKET WOBBLES

The last quarter was one of overall economic resilience, although recent turbulence in equity markets reminds us that volatility should not be forgotten. Weak US employment data and a sharp correction in US tech stocks were reflected by a spike in the VIX (the investor fear gauge), albeit this has since been drifting down.

The IMF forecasts US GDP to grow by +2.6%, down by -10bps from its previous forecast in April. Global GDP growth is now set to rise by +3.2% in both 2024 and 2025. The IMF also revised its Euro Area GDP growth forecast for 2024, upgrading it by +10bps to +0.9%.

Both the Bank of England (BoE) and European Central Bank (ECB) have commenced their easing cycles, reducing interest rates by 25bps to 5.00% and 4.25%, respectively. Meanwhile, in the US, rates remain at a 23-year high of 5.25-5.00%. Money markets are now pricing in 125bps of rate cuts, up from 75bps, with the first cut anticipated in September.

GLOBAL BUSINESS ACTIVITY REMAINS EXPANSIONARY FOR NOW

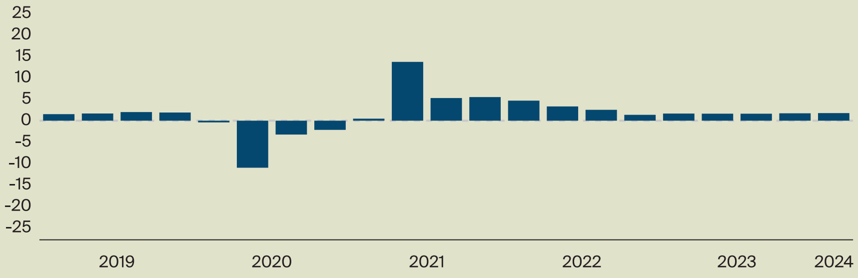
The Global Services PMI fell to 53.1 in June, from 54 in May, albeit remaining in expansionary territory (figure above 50) for the 16th successive month. Meanwhile, the Global Manufacturing PMI moderated to 50.9, down from 51 in May. However, this was its sixth month in expansionary territory.

INFLATION: A MIXED PICTURE AS RATES MEANDER TOWARDS TARGET

With noise around inflation surprises and shifting global geopolitics, headline inflation worldwide remains variable. In the Euro Area, inflation picked up to 2.6% in July 2024, up from 2.5%. Meanwhile, US inflation fell for the third successive month to 3.0% in June, down from 3.3% in May.

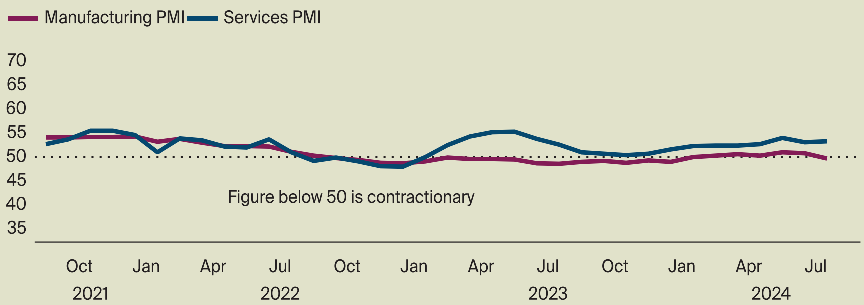
Gross Domestic Product

Quarterly OECD countries GDP growth, % change year-on-year, seasonally adjusted



Source: Knight Frank Research, Macrobond, OECD

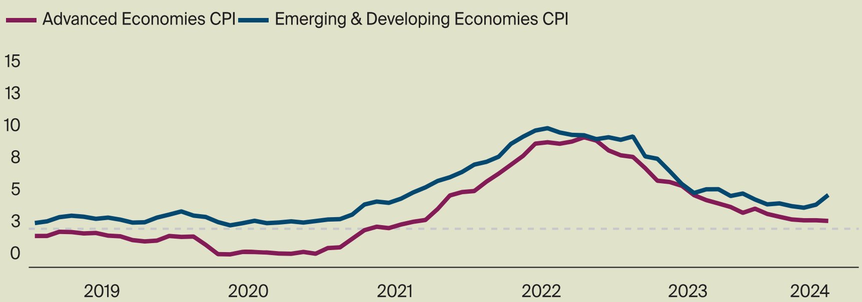
Business Activity Index



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

Inflation

%



Source: Knight Frank Research, Macrobond, World Bank

UK economy

UK inflation moderated to the 2.0% target in Q2 2024.

UK GDP EXPANDED IN MAY

The UK economy expanded 0.7% quarter-on-quarter in Q1 2024. It is the strongest expansion in over two years, ending the recession it entered last year. On a monthly basis, GDP grew by +0.4% in May, after showing no growth in April 2024.

The IMF updated its GDP forecasts in July 2024. It now expects the UK's GDP to grow by +0.7% in 2024, up slightly from its previous +0.5% growth forecast in April. For 2025, the IMF expects the UK economy to grow by +1.5%.

The UK unemployment rate stood at 4.4% in the three months to May 2024, unchanged from the previous three-month period and comfortably below the long-term average of 6.7%.

RISING BUSINESS ACTIVITY

The UK Services PMI rose to 52.4 in July, from a year-to-date low of 52.1 in the previous month and the ninth consecutive period of expansion in services activity.

The UK Manufacturing PMI increased to 51.8 in July, the highest level since July 2022 and the third consecutive period in expansionary territory.

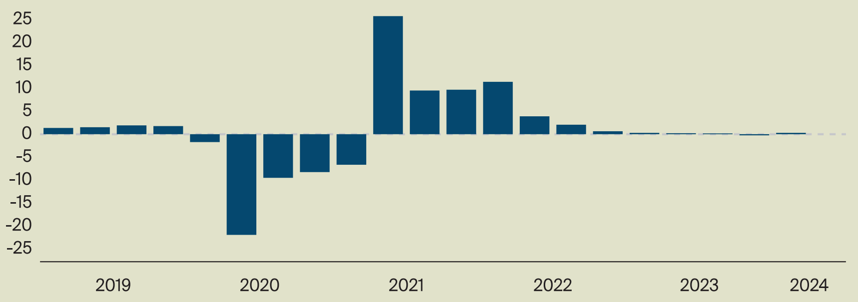
UK INFLATION HITS TARGET IN Q2 2024

As predicted, UK inflation reached target in Q2 2024. Inflation fell to 2.0% in May and remained steady at this level in June. Oxford Economics expects UK inflation to pick up slightly to 2.1% in Q3 2024, before rising again to 2.6% by the end of the year, as the drag from falling energy prices will start to fade from July.

With inflation reaching target in Q2 2024, the BoE began its loosening cycle in August, cutting interest rates by 25bps from 5.25% to 5.00%. The next cut is potentially not until November, rather than September as previously anticipated. Capital Economics forecasts the interest rate to reach 4.5% by the end of the year and 3.0% by the end of next year.

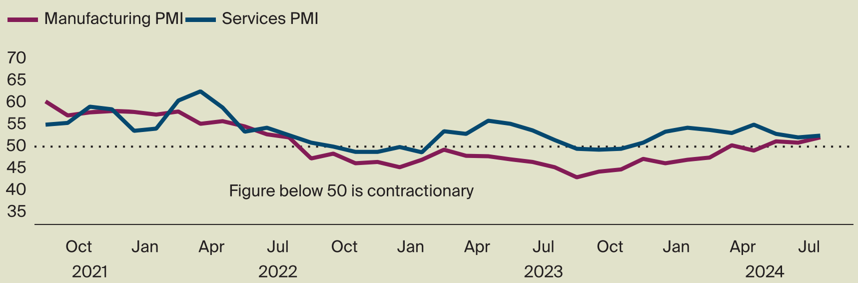
Gross Domestic Product

Quarterly UK GDP growth, % change year-on-year, constant prices, seasonally adjusted



Source: Knight Frank Research, Macrobond, ONS

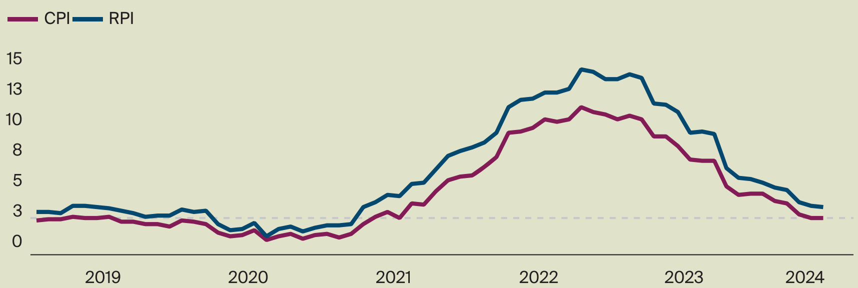
Business Activity Index



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

Inflation

%



Source: Knight Frank Research, Macrobond, ONS

Capital markets

UK commercial real estate

CONTACT: VICTORIA ORMOND, CFA

Capital markets

The UK was the most invested market for overseas capital in Q2 2024 for All Property.

UK CRE: LIVING SECTORS #1 IN Q2 2024

The UK remained the second most invested market globally and the top location for cross-border capital in Q2 2024. London also emerged as the leading global metro for cross-border investments during the same period.

The UK commercial real estate (CRE) market is beginning to show signs of a modest recovery, with investment totalling £11.4 billion in Q2 2024. This was +17% up on investment in Q1 2024, and a +21% expansion on Q2 2023, but remains -17% below the Q2 long-term average. Investment in H1 2024 totalled £21.2bn, -23% below the H1 10-year average, yet up +3% on H1 2023. When compared to other major markets, the UK was unique in recording a rise in 12-month investment volumes. In contrast, US (-6%) and European (-7%) investment recorded larger proportional declines year-on-year in H1 2024.

The Living Sectors continues to be heavily targeted by investors, recording the highest investment in Q2 2024 (£3.0bn). This was followed by Industrial (£2.5bn), Hotels (£2.1bn), Retail (£2.0bn), Offices (£1.7bn) and Senior Housing & Care (£0.3bn). Hotels (+326%), Living Sectors (+54%), Senior Housing & Care (+35%) and Retail (+26%) were the only sectors to record an increase in investment year-on-year in Q2 2024.

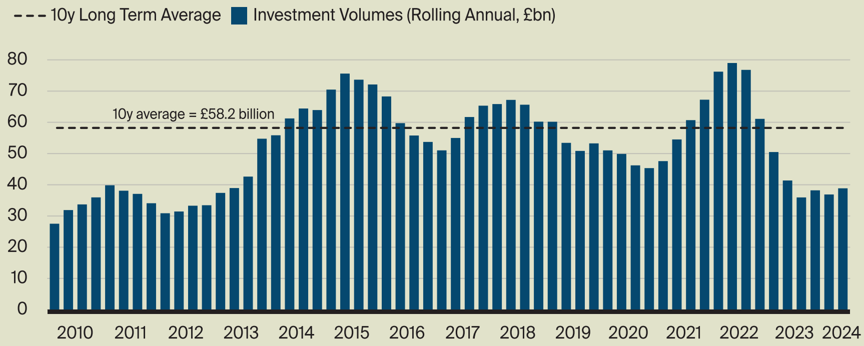
Cross-border investment increased during the quarter, with £5.9bn invested, up +58% on Q1 2024 and contributing to 51% of UK CRE volumes in Q2 2024.

UK CRE POISED FOR MODEST RECOVERY?

With the Bank of England initiating its loosening cycle in August by cutting interest rates to 5.00% and the softening trend in swap rates observed earlier this year, there are indications that UK CRE investment volumes may increase in H2 2024. As the UK economy exhibits signs of a modest recovery, we are also seeing green shoots of improvement in sentiment.

UK quarterly investment volumes

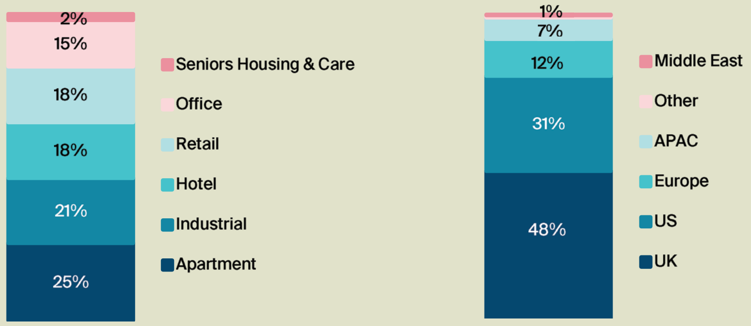
Quarterly investment volumes, rolling average



Source: Knight Frank Research, RCA

Investment volume breakdown

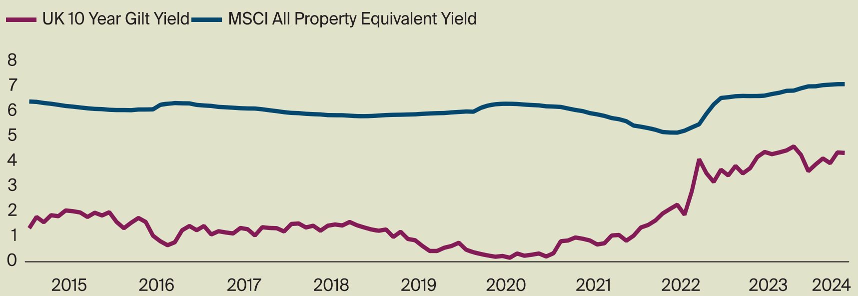
% of Q2 2024 volume



Source: Knight Frank Research, RCA

Property equivalent yield & gilt yield

%



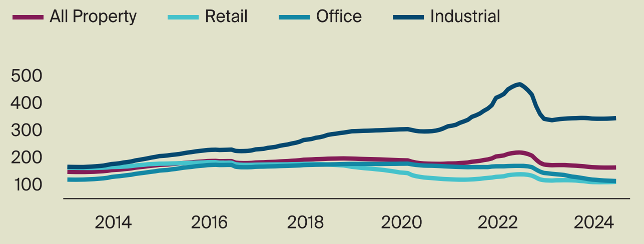
Source: Knight Frank Research, Macrobond, MSCI

Capital markets

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

MSCI Capital Value Growth Index

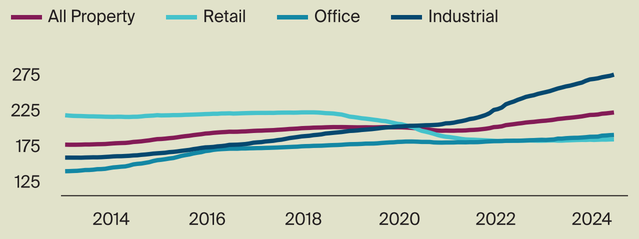
Dec 1986 = 100



Source: Knight Frank Research, MSCI

MSCI Rental Value Growth Index

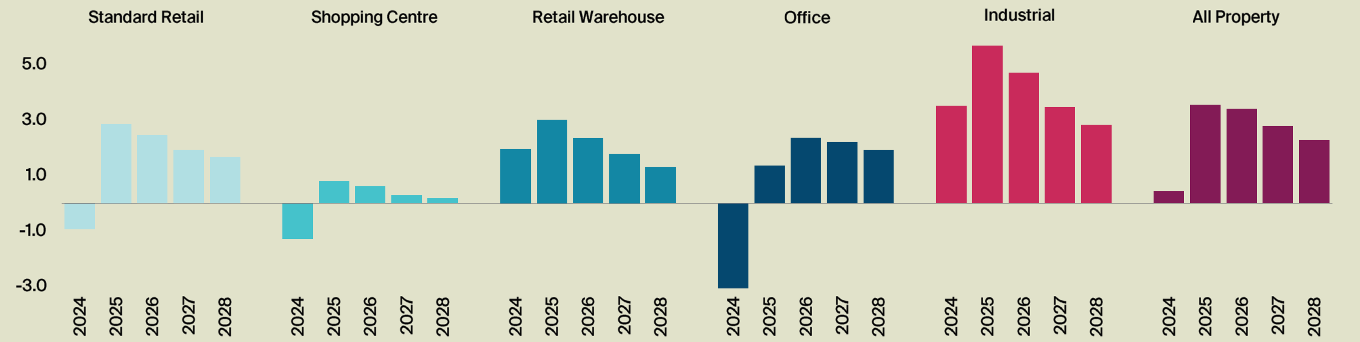
Dec 1986 = 100



Source: Knight Frank Research, MSCI

IPF Consensus Capital Value Growth Forecast

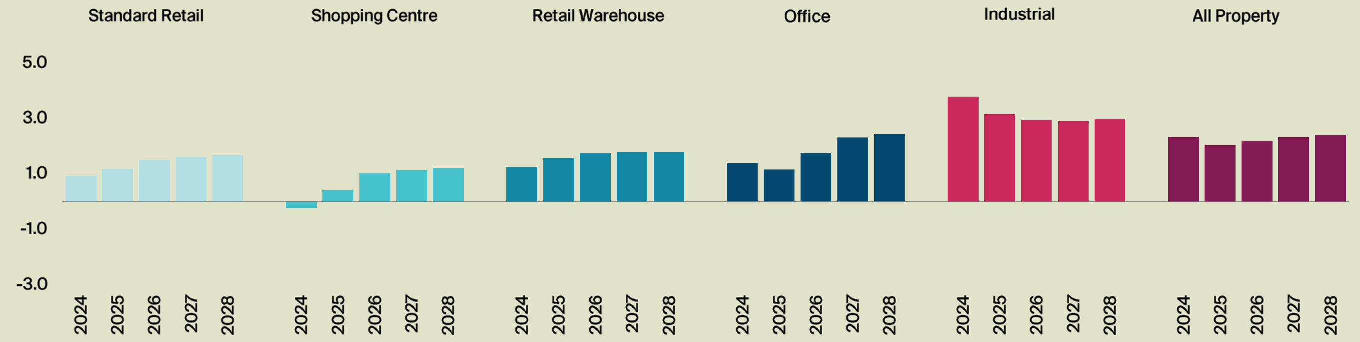
%, May 2024 forecast



Source: Knight Frank Research, IPF

IPF Consensus Rental Value Growth Forecast

%, May 2024 forecast



Source: Knight Frank Research, IPF

Offices

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

CONTACT: LONDON – SHABAB QADAR, SOUTH EAST & UK CITIES – DARREN MANSFIELD

City & Southbank offices

Market liquidity improving as prime yields remain stable.

LARGER DEALS LIFT ACQUISITIONS

A broadening of the pool of investors, allied with a marked rise in larger lot size transactions, suggests investor sentiment may be turning positive in the City & Southbank.

During Q2, there were 16 transactions totalling £0.8bn, up 157.3% compared to Q1, but still significantly below the quarterly long-term average of £1.9bn.

Larger lot size deals accounted for 57.0% of all transactions, some £450m, and were the highest level since Q1 2023.

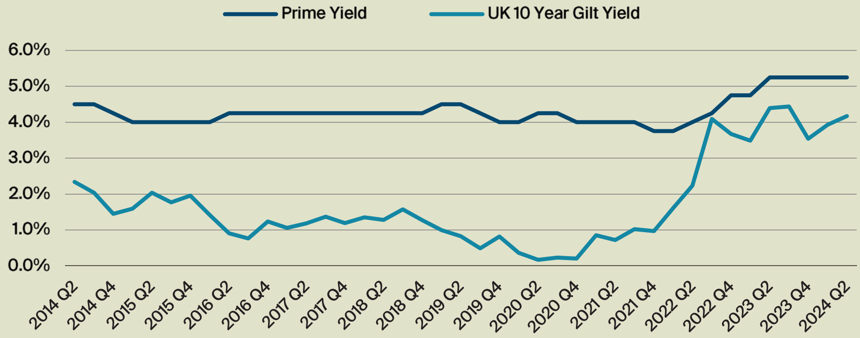
By nationality, investors from the Middle East acquired £0.4bn of office assets, accounting for 44.3% of volumes, followed by investors from the United Kingdom with £0.2bn and a 29.5% share.

Signs that recovery capital was beginning to enter the market were evidenced by a significant increase in private equity investment. Almost half (49.7%) of acquisition volumes last quarter was made by this group. However, the largest transaction was by a private property company, Yellow Tree which acquired Herbal House, EC1 for £101m.

The impact of yield movements on pricing remains stable, with a further quarter of prime yields remaining at 5.25%

City & Southbank: Prime Yield and UK 10 Year Gilt Yield

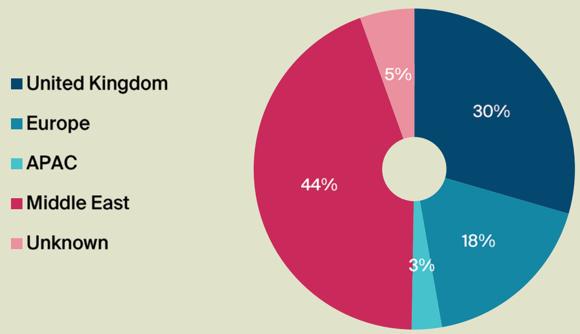
% per annum



Source: Knight Frank Research

City & Southbank: Investment volumes by nationality

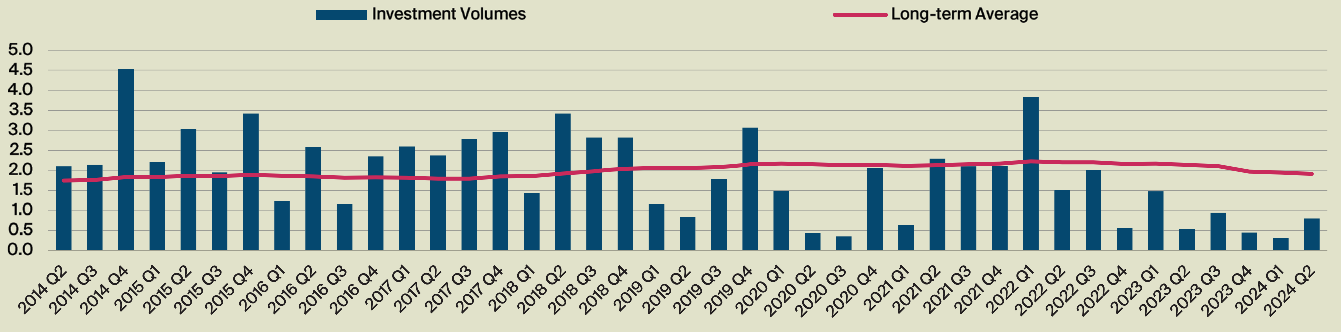
2024 Q2, % of total investment volumes



Source: Knight Frank Research

City & Southbank: Investment volumes relative to trend

£billion



Source: Knight Frank Research

City & Southbank offices

Above trend take-up driven by larger size band lettings.

ABOVE TREND TAKE-UP

During the quarter, take-up in the City & Southbank increased to 1.7m sq ft, up 46.6% compared to the previous quarter and 3.4% above the quarterly long-term average.

We expect positive momentum in lettings to be maintained, as floor space under offer has increased by a quarterly change of 2.9% to 2.1m sq ft.

An increase in lettings for larger size band buildings primarily drove this improvement in leasing volumes. There were 132 lettings: six were above 40,000 sq ft, and two were above 100,000 sq ft. In contrast, none of the lettings in Q1 were above 100,000 sq ft. As a result, the average deal size in Q2 rose by 47.7% to 12,526 sq ft.

The most significant letting in Q2 was by Citadel, which pre-let 248,533 sq ft at 2 Finsbury Avenue, EC2M, in the City Core, with the option to take another 130,000 sq ft. The second largest transaction was by Amazon, which leased two buildings at the Stage Campus in Clerkenwell/Farringdon —107,028 sq ft at The Bard and 71,440 sq ft at The Hewett.

NEAR-TERM DEMAND REMAINS ELEVATED

After rising for two consecutive quarters, active requirements for space to be occupied in the next 12-18 months have fallen by 20.3% in Q2 2024, standing at 4.4m sq ft in the City & Southbank overall. Despite this decline - primarily due to many requirements being fulfilled through executed lettings - the figure remains 1.6% above the quarterly long-term average.

SLIGHT FALL IN AVAILABILITY

Office availability fell by 6.3% during the quarter to 13.2m sq ft, resulting in a vacancy rate of 9.5%, some 2.4% percentage points above the quarterly long-term average.

The decrease in availability was driven by a healthier quarter of take-up and several withdrawals, including 1.6m sq ft of second-hand space removed from the market for redevelopment. Prime availability is tight and has a vacancy rate of 5.5%.

POTENTIAL UNDER SUPPLY OF BEST SPACE

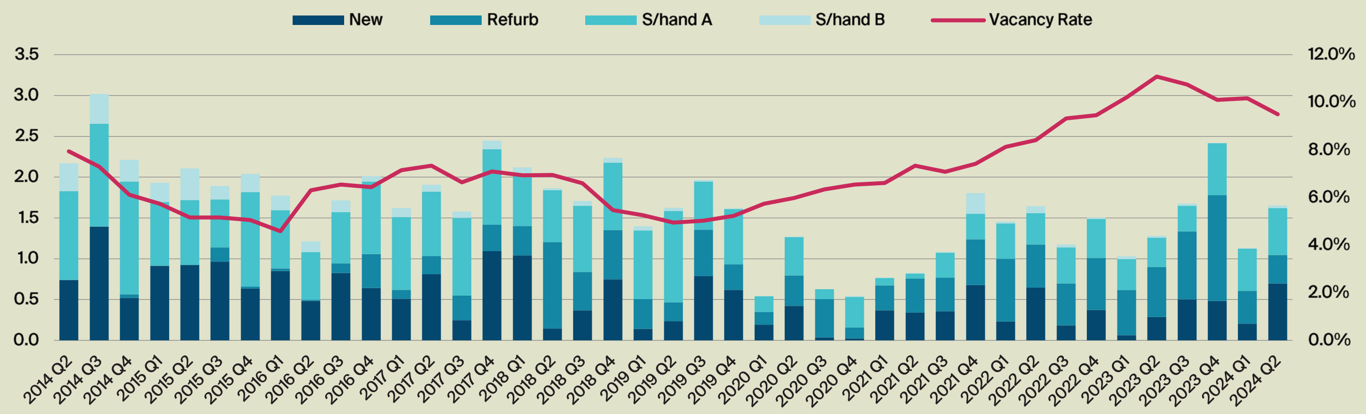
The under-construction development pipeline increased 6.2% during the quarter, to 9.7m sq ft, with 6.1m sq ft being built speculatively. Across the broad City & Southbank market, just over 43% of total construction activity is pre-let or under offer. This figure rises substantially to 62.4% in the City Core – the largest business district in the market.

The current level of speculative development falls significantly below average levels of new and refurbished take-up. In fact, we anticipate a 5.6m sq ft shortfall of best-in-class office space by the end of 2027.

PRIME RENTS RISE IN SOUTHBANK

Following a number of key lettings in the Southbank Core submarket, prime rents have increased by £2.50 to £82.50 per sq ft. All other submarket rents remain unchanged. Rent frees for a standard 10-year lease are stable at 24 months.

City & Southbank: Take-up by quality and vacancy rate
Million sq ft (LHS), % of stock (RHS)



Source: Knight Frank Research

West End offices

West End investment volumes remain resilient.

WEST END AS A SAFE HAVEN

Investment volumes fell marginally by 1.7% to £1.0bn in Q2, following a near 80% rise in deals above £100m.

Private capital investors represented almost half (49.8%) of transactions, taking advantage of lower barriers to entry, as institutional investors continue to be withdrawn from the market. The next largest share at 27% of volumes was from private equity investors – a sign that investors are noting value driven opportunities.

Investors were predominantly from the United Kingdom (46%) and North America (29%), the latter having been absent during the normalisation of interest rates over the last 18 months.

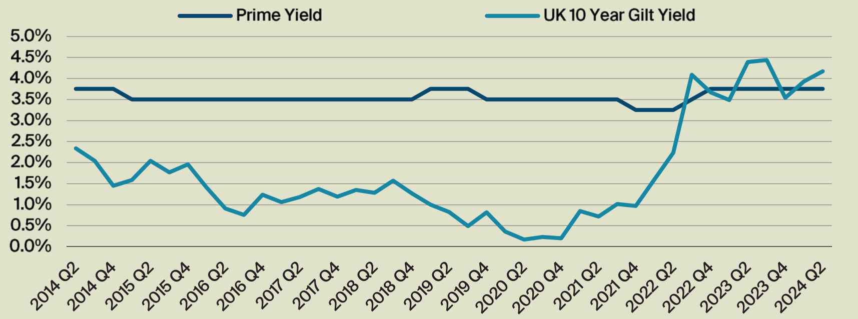
The largest transaction of the quarter was 130-134 New Bond Street, W1, a retail-led office asset acquired by Blackstone for £227m. The transaction reflected a net initial yield of 3.65%. The second most significant transaction was an occupier acquisition of 20 Grafton Street by Letterone for £115m.

Just over £1.6bn of assets are available for sale in the West End, but this is expected to rise as the recovery strengthens.

Recovery will be assisted by a seventh consecutive quarter of prime yields remaining stable at 3.75%.

West End: Prime Yield and UK 10 Year Gilt Yield

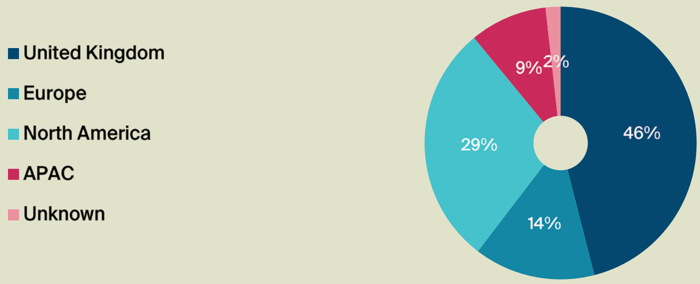
% per annum



Source: Knight Frank Research

West End: Investment volumes by nationality

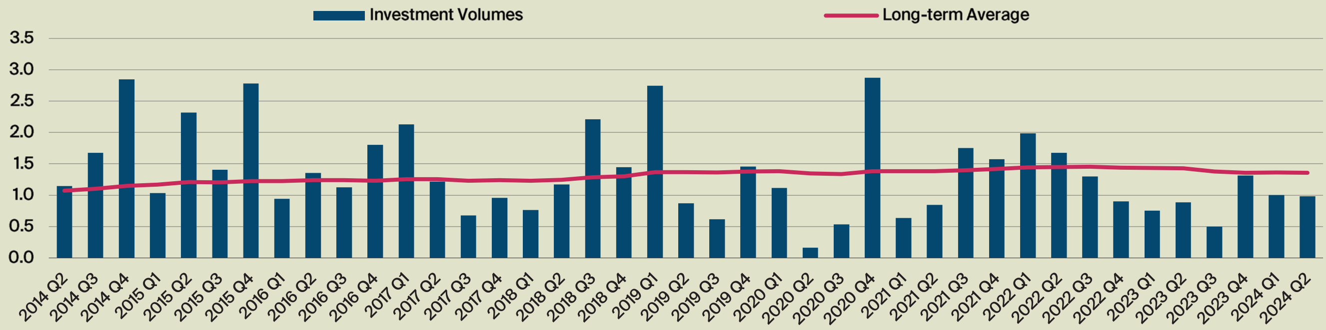
2024 Q2, % of total investment volumes



Source: Knight Frank Research

West End: Investment volumes relative to trend

£billion



Source: Knight Frank Research

West End offices

Lower levels of take-up, but prime availability is low.

LOWER TAKE-UP BUT BROAD BASED

West End take-up rose by 9.7% in Q2 to 0.7m sq ft, below the long-term trend of 1m sq ft and signalling a further cooling of leasing market momentum.

However, there is a solid pipeline of deals in solicitor's hands, with space under offer rising 47.1% quarter-on-quarter to 1.4m sq ft.

The drive of occupiers to better quality space is still a central feature, with a just over 60% of transactions for new and refurbished space.

The average deal size fell from 6,701 sq ft to 4,193 sq ft in Q2, as the market lacked larger size band lettings. The majority (37.8%) of transactions were between 0-5,000 sq ft, and all lettings this quarter were between 0-40,000 sq ft.

Take-up by sector was broad-based. The largest occupier group was financials (21.7%), followed by manufacturing & corporates (20.2%), and TMT (18.8%). The most significant transaction during the quarter was the 37,559 sq ft letting by Liberty Global PLC at 120 King's Road in Knightsbridge/Chelsea.

Active demand rose in Q2, increasing 4.5% to 2.3m sq ft. There are 17 requirements for 60,000sq ft or above and two requirements for space over 100,000 sq ft. The majority of demand is from the financial sector, accounting for 34% of near-term requirements, and is from companies such as Evercore Partners and Ares Management, while manufacturing and corporate occupiers, such as River Island, account for 22% of active demand.

AVAILABILITY RISE DRIVEN BY DEVELOPMENTS

Availability has risen 9.3% to 7.7m sq ft in Q2, driven predominantly by the 1.2m sq ft of speculative developments scheduled to complete by the end of Q4.

The increase in availability has resulted in a vacancy rate of 8.1%, up by 0.6 percentage points compared with Q1. However, the vacancy rate of grade A offices is acute at 1.4% and below 1% in the West End Core, Fitzrovia, and Paddington.

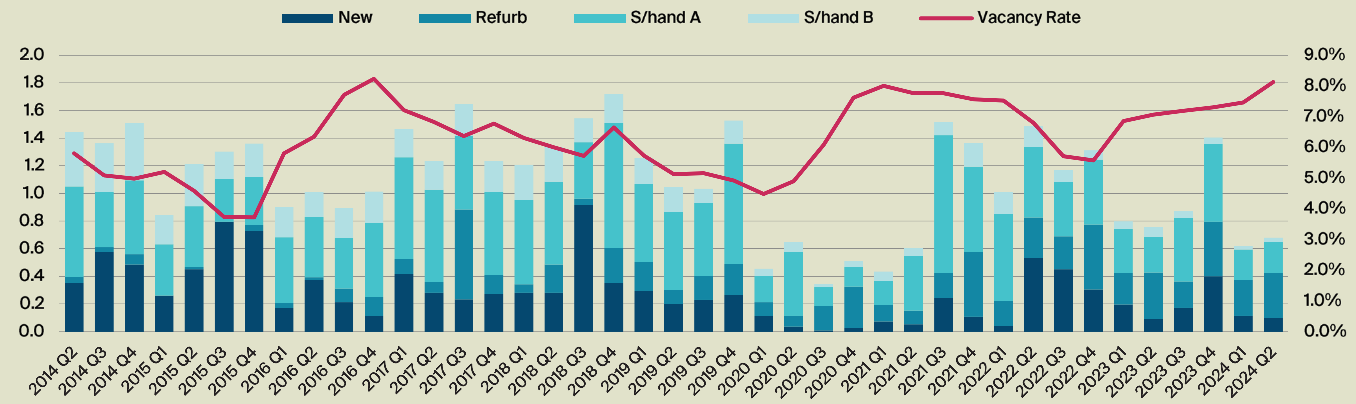
The under-construction development pipeline fell by 3.1% to 6.0m sq ft, following 0.3m sq ft of completions in Q2. The most notable completion during the quarter was 11 Belgrave Road, SW1 - the development delivered 94,000 sq ft of speculative floor space. The under-construction pipeline is 32.5% pre-let and there is an additional 251,644 sq ft under offer.

We have adjusted our shortfall calculation to account for anticipated potential completions to 2027. The West End anticipated shortfall is 1.3m sq ft and results from the pipeline falling short of average levels of new and refurbished take-up over the period.

PRIME RENTS RISE IN KNIGHTSBRIDGE/CHELSEA

Following sustained leasing activity in Knightsbridge/Chelsea, prime rents have risen £2.50 to £102.50 per sq ft. They remain unchanged in all other West End submarkets and rent frees average 24 months for a typical 10-year lease.

West End: Take-up by quality and vacancy rate
m sq ft, % of stock (RHS)



Source: Knight Frank Research

Docklands & Stratford offices

Large fall in availability in Canary Wharf.

ONE LETTING IN Q2

Take-up remained subdued in Q2, 43% below the long-term trend with only 113,892 sq ft transacted during the quarter. The single letting in Q2 was by the financial services firm Revolut, leasing one third of the YY building in the Canary Wharf submarket. The scheme completed in Q2 2023 and was the first new build office completed in this submarket since Q1 2022.

While under-offers remain low (0.06m sq ft) leasing momentum is supported by near-term active demand. Named requirements have risen 48% to 0.65m sq ft in Q2, primarily driven by financial and public sector occupiers such as JP Morgan & Fitch Ratings. The majority of demand is for large size band space. In fact, 80.6% of demand is for floorspace greater than 100,000 sq ft.

AVAILABILITY FALLS FOLLOWING WITHDRAWALS

Availability has fallen 25.6% from Q1 to 3.3m sq ft – this is the lowest level of availability for two years following the withdrawal of large buildings for redevelopment. This has resulted in a significant fall in the vacancy rate, from 17.6% to 13.1%.

Across four buildings, 1.1m sq ft has been withdrawn due to buildings being considered for repositioning, having previously been marked for sub-lease or assignment.

DEVELOPMENT PIPELINE GROWS TO ENCOMPASS MIXED USE SCHEMES

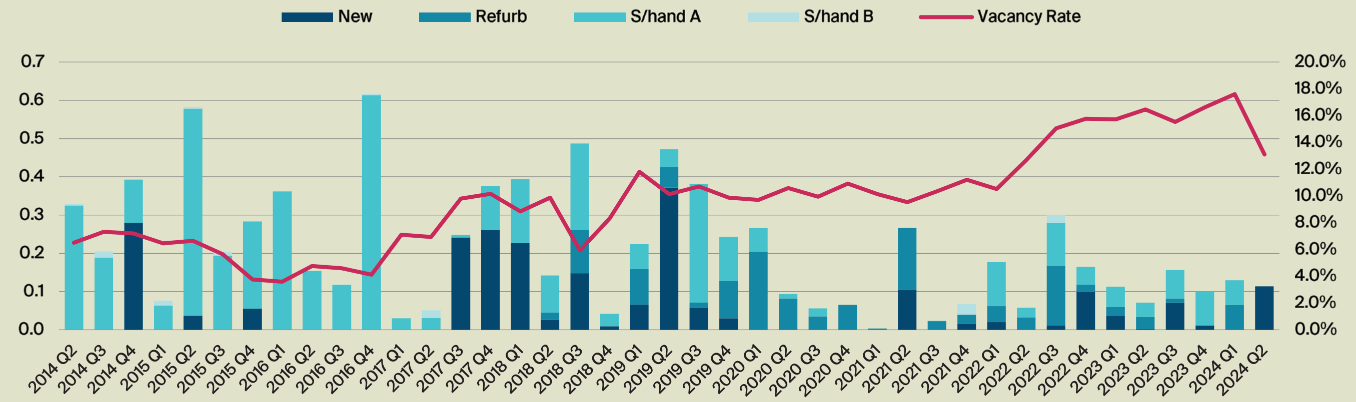
The burgeoning life science sector is present in the development pipeline. There are three schemes under-construction in the market, the largest of which is the office element of the One North Quay development from Canary Wharf. The second scheme is 17 Columbus Courtyard, which will primarily be a flexible lab, and office development across nine floors. These two schemes, and the Turing Building in Stratford mean there is approximately 1m sq ft of speculative space that will be delivered by the end of 2027.

While the rent achieved at YY is a market record, prime rents are unchanged in Q2 at £57.50 in Canary Wharf, with rent free periods at 29 months for a typical 10-year lease.

STABLE YIELDS

There has been no investment activity in Docklands & Stratford during the quarter. However, assets under offer have remained stable in Q2 at £0.02bn. Availability has increased by 35.4% on the previous quarter to £0.1bn, whilst prime yields have remained stable at 7.25%.

Docklands & Stratford: Take-up by quality and vacancy rate
m sq ft, % of stock (RHS)



Source: Knight Frank Research

South East offices

Improving market conditions supported an uptick in activity in H1 2024. As pricing for best-quality assets stabilises, yields are expected to sharpen following the first rate cut since 2020.

INVESTMENT ACTIVITY IMPROVING?

South East office investment volumes reached £360 million in Q2 2024, 48% below the 10-year quarterly average. This takes the H1 2024 total to £758M, 19% below H1 2023 and 41% below the 10-year average for a H1 period.

However, whilst investment volumes remain below the long-term trend, the numbers are indicative of the improving sentiment and uptick in activity. H1 2024 investment volumes marked a significant increase of 108% from H2 2023. Furthermore, in terms of deal numbers, 50 transactions were completed in the first half of 2024, well above the 10-year average of 44.

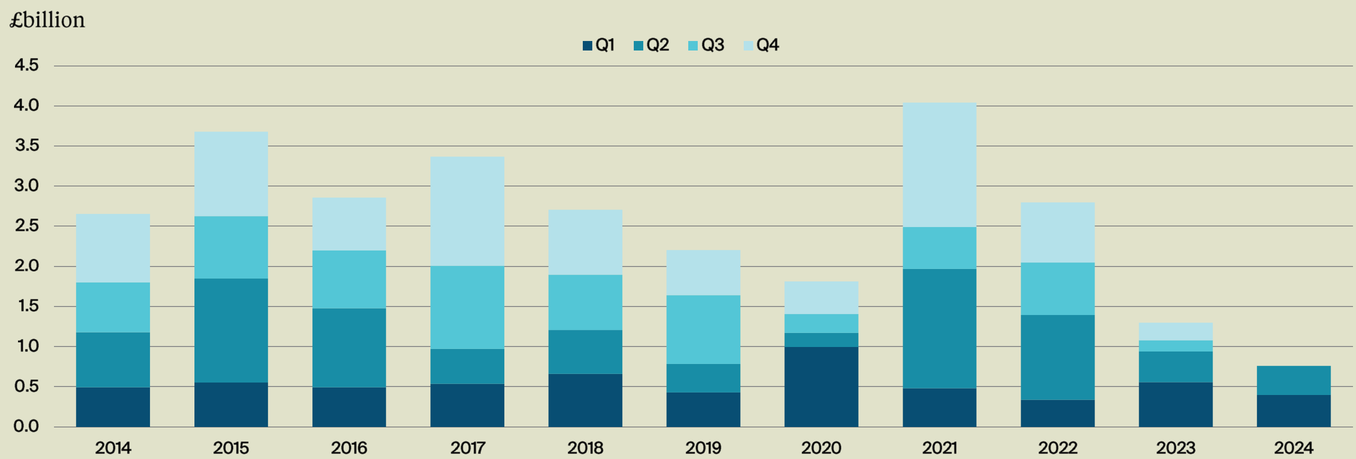
OUTWARD YIELD SHIFT OVER?

Prime yields were unchanged at 7.00% in Q2, as pricing for best-in-class assets stabilises. With the BoE making its first interest rate cut this year, the prospect of further rate cuts has improved, setting the groundwork for inward yield movement in the near term. As debt rates become favourable, more investors will return to the market. This greater depth of market competition will sharpen pricing for the best assets.

LIQUIDITY REMAINS LIMITED

Private investors and Property Companies accounted for two-thirds of investment volumes in H1 2024, with Institutional buyers still largely absent. With a higher cost of capital continuing to dominate the market, liquidity remains concentrated in smaller lot sizes, with over 85% of deals completed in H1 of a value below £25m. The second quarter, however, did register three transactions of over £50m. Interestingly, this is the same number of deals traded at this size range throughout the whole of 2023.

South East: Investment volumes



Source: Knight Frank Research

South East offices

Occupier certainty saw leasing activity continue to grow, with H1 take-up reaching the highest level since 2019 and the return of several larger requirements.

LEASING VOLUMES DIPPED IN Q2 BUT ARE UP YEAR-ON-YEAR

Leasing volumes in the South East reached 826,330 sq ft in Q2, 16% below the total recorded in Q1 2024 and 6% below the 10-year quarterly average. Even so, the mid-year measure of take-up shows that 1.8m sq ft has been leased. This total is 57% higher than the equivalent period in 2023, with activity in H1 2024 being the strongest first six months of the year since 2019. Notably, the deal rate continues to show improvement. During Q2, 71 occupier transactions were completed, ahead of the 10-year quarterly average of 63. Considered at mid-year, deal numbers for the H1 period have risen yearly since 2020, with H1 2024 recording the highest number of transactions since 2018.

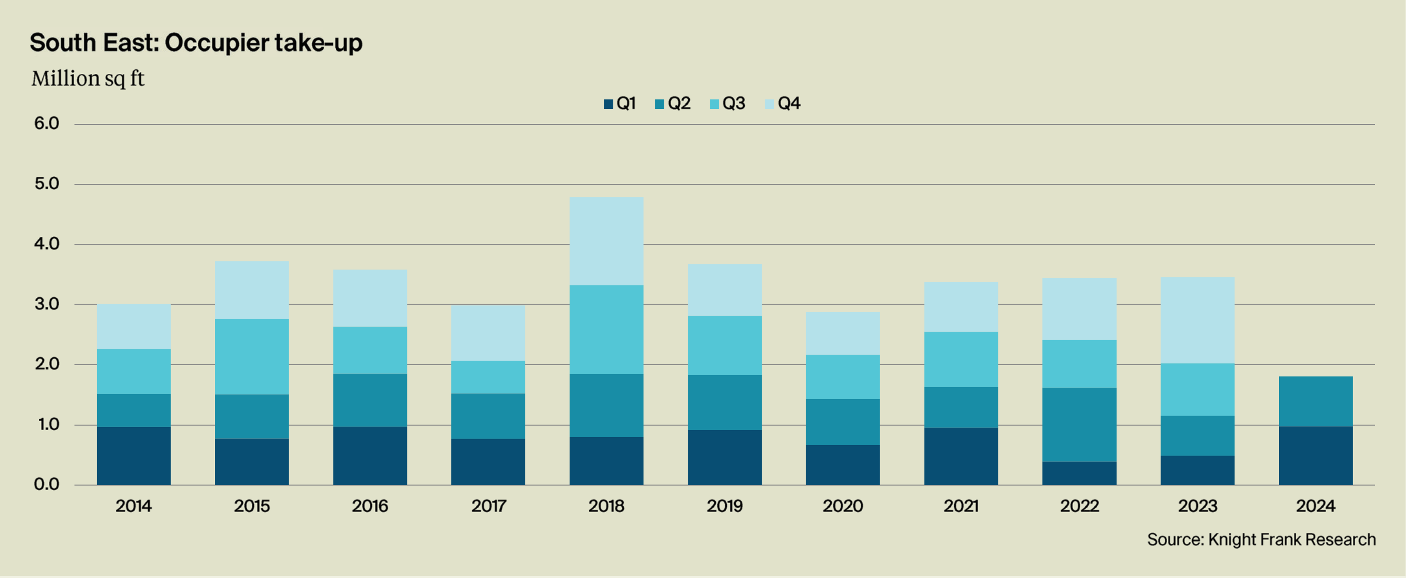
OCCUPIER ASSURANCE UNDERPINNING LARGER REQUIREMENTS

Activity in the first half of 2024 has demonstrated that occupiers are bringing requirements to market with a growing certainty of future space needs. In H1 2024, seven transactions above 50,000 sq ft have been completed. This compares to zero in 2023 and a long-term average of four. Significantly, two additional deals above this threshold were under offer at the close of Q2, and 30 requirements were active. The upturn in larger requirements indicates an occupier's stance moving from 'just enough' to one that includes expansionary space.

DIFFERING FORTUNES AT THE MID-YEAR JUNCTURE

The relative performance of the South East markets is somewhat polarised. At mid-year, the nine 'Momentum Markets' that Knight Frank identified earlier this year accounted for 77%, or 1.4m sq ft, of overall take-up in 2024.

Standing out, Oxford continues to record heightened activity. The city accounted for 21% of spaced leased in H1 2024 and was in receipt of two of the seven deals over 50,000 sq ft. Similarly, activity in Reading has increased. Take-up in Reading has grown fourfold compared to the equivalent period in 2023. In fact, if considered over a 12-month rolling period, Reading has been the best-performing market in the South East region.



UK Cities offices

H1 2024 saw an uptick in investment activity, with liquidity concentrated in smaller lot sizes as pricing finds its new level.

SIGNS OF RECOVERY FOR THE INVESTMENT MARKET

Despite investment volumes falling 38% quarter-on-quarter to finalise at £187.81m in Q2 2024, the H1 total of £490.4m reflects a 12% increase compared to the equivalent period in 2023.

Notably, although the H1 2024 deal number finished 39% below the 5-year H1 average, it remained largely in line with H1 2023 at 39, increasing the average deal size from £10.93m to £12.57m.

HAS PRICING STABILISED?

Prime office yields remained stable quarter-on-quarter across all the regional cities tracked, having shifted by an average of 125 bps over the past 12 months. For the best-quality assets, pricing appears to have reached a level which is in line with buyer and seller expectations. With inflation at its 2% target, the first BoE interest rate cut since 2020 was made in August. This could facilitate additional investment activity.

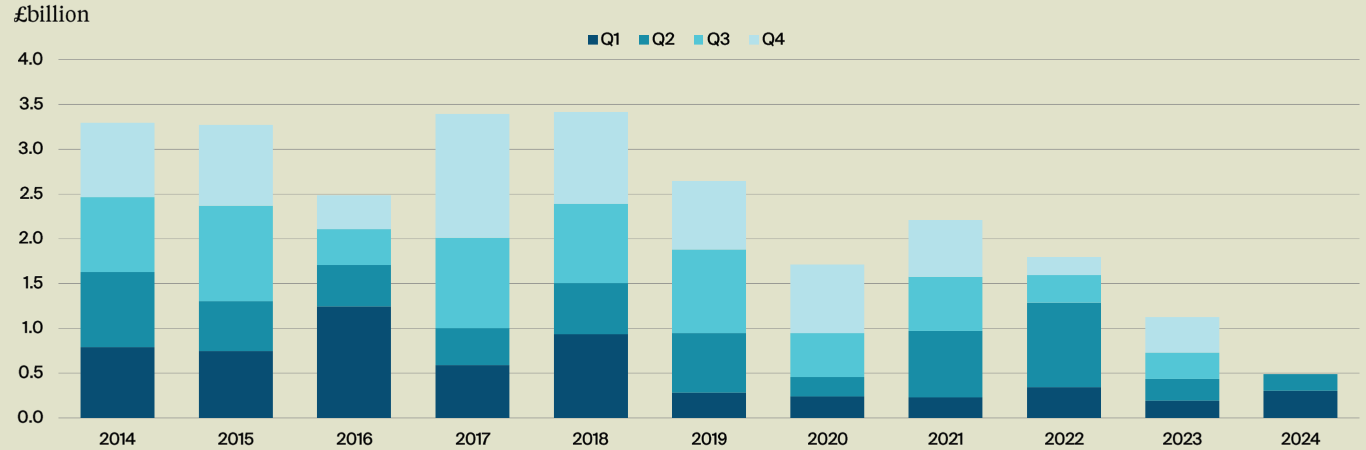
LIQUIDITY FOCUSED ON SMALLER LOT SIZES

Investment activity is increasingly concentrated on the smaller end of the market, with 87% of deals completed under £20m in H1 2024, compared to the 5-year annual average of 71%. At this level, opportunistic property companies have dominated activity, accounting for more than half of deals done. Activity within the mid-range £20m to £50m size band has been consistent historically, although recent price shifts have meant that some mid-range assets have slipped into the under £20m size band.

THE RETURN OF OVERSEAS INVESTMENT

Buoyed by an improving economic and geopolitical backdrop, overseas investors accounted for nearly half of investment volumes in Q2 2024, the highest proportion recorded since Q3 2020. However, with 89% of deals done under £20m, property companies continued to dominate in terms of deal number, representing 12 out of 19 deals completed in the quarter.

UK Cities: Investment volumes



Source: Knight Frank Research

UK Cities offices

As occupiers engage with the market, the supply squeeze is fuelling serviced office provider activity. Occupiers caught out by a lack of available product need short-term space.

OCCUPIER ACTIVITY RISES ABOVE TREND

The occupier market is showing signs of improvement. Take-up in Q2 2024 measured 1.2m sq ft across the regional cities. Although this total is 5% below the 5-year quarterly average, it is 17% ahead of leasing volumes in Q1 2023. At the mid-year point, occupier activity reached 2.34m sq ft, 10% above the equivalent period in 2023 and 5% above the 5-year H1 average.

Deal numbers have seen a steady uptick since 2020 to reach 522 in H1 2024. Significantly, this is consistent with the pre-COVID deal level and above the 5-year average for a H1 period.

MARKET NARROWING FUELS RENTAL GROWTH

Occupier preference for best-quality space persisted in H1, with over half of take-up in H1 2024 attributed to grade A stock. With the focus on a relatively narrow section of the market, competition has pushed prime rental values upward across many of the regional markets. Bristol, Manchester and Sheffield have all seen year-on-year growth of 13%. Rental uplifts have been as high as 31% in the case of Newcastle since the onset of the pandemic. The cities that have not experienced an increase in prime rents are expected to by year-end.

PROFESSIONAL SERVICES LEAD OCCUPIER DEMAND

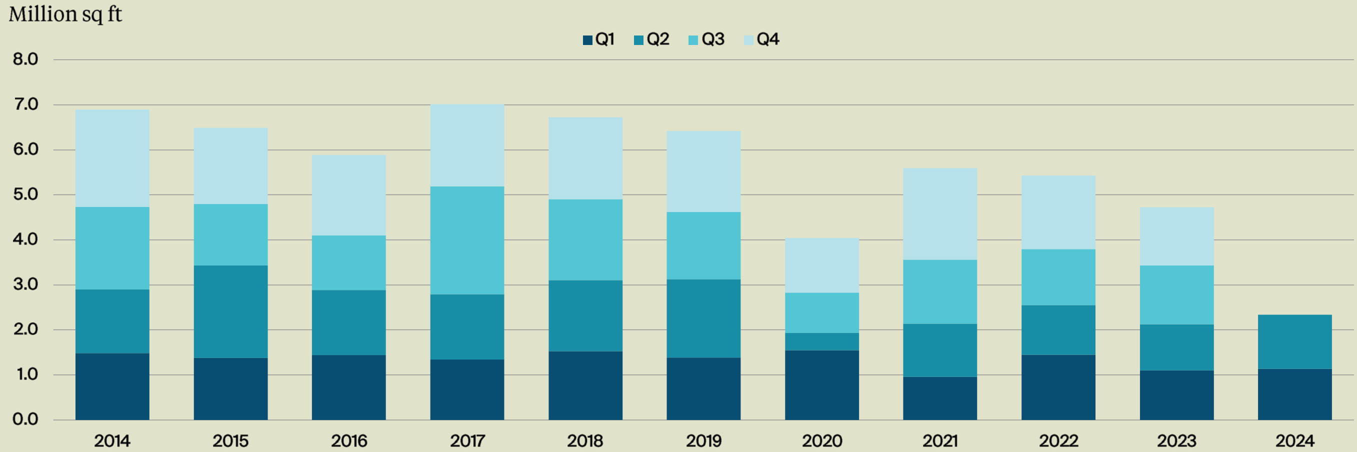
The professional services sector continued to underpin occupier activity, accounting for 34% of space leased. This is up from the 5-year average of 22%. Key deals included DAC Beachcroft taking a combined total of c.57,500 sq ft of space at the Welcome Building in Bristol and Landmark in Manchester. The largest deal to complete in H1, however, was the BBC leasing of 84,000 sq ft at Typhoo Wharf in Birmingham. Once completed in 2026 the broadcast centre will house several BBC editorial teams, including: The Archers, BBC Asian Network, BBC Newsbeat, BBC Radio WM and Midlands Today.

SUPPLY SQUEEZE BOLSTERS SERVICED OFFICE PROVIDER ACTIVITY

Serviced office providers have been active in H1 2024, accounting for 10% of total take-up. Greater demand for serviced space is principally being generated by occupiers deferring decisions on impending renewals. Serviced space allows occupiers to take shorter-term contracts whilst considering a longer-term strategy.

UK Cities: Occupier take-up

Million sq ft



Source: Knight Frank Research

Industrial & distribution

Investment and occupational markets

CONTACT: DEIRDRE O'REILLY

Industrial & distribution

Slowdown in repricing and a more stable outlook provide confidence to investors.

IMPROVEMENT IN INVESTMENT

Investment figures for Q2 indicate signs of improvement in investment activity in the UK industrial market. A total of £2.4 billion of investment was recorded in Q2 2024, 31% ahead of the first quarter and in line with the 10-year average for Q2.

H1 2024 investment totalled £4.3 billion and although below H1 2023, this represents a 32% improvement on H2 2023 and is 35% higher than the 10-year pre-pandemic H1 average.

While the buyer profile is still dominated by cross-border capital, accounting for 45% of the investment so far in 2024, its share of the market has declined from 57%/56% recorded in 2022/2023. REITs and Listed Property Companies have been far more acquisitive so far this year, accounting for 20% of investment. This compares with just 5% in 2023 and 6% in 2022.

PACE OF REPRICING HAS SLOWED

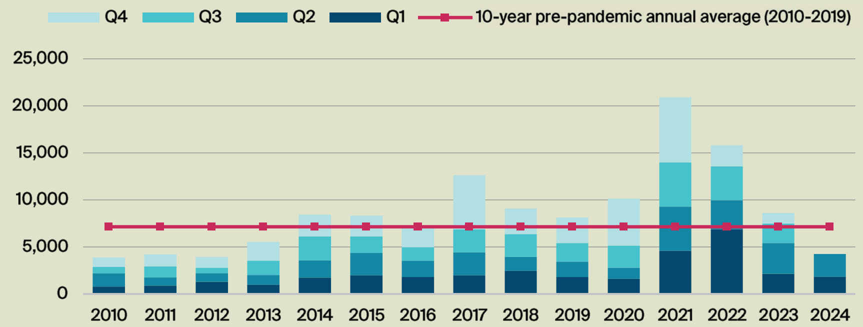
Prime distribution/warehousing yields with 15-year income on open market rent reviews remained stable in Q2 2024, at 5.50%, having softened by c. 200bps over the past two years.

The UK industrial equivalent yield was 6.3% in June 2024, softening by 4bps since March 2024 and by 25bps over the past year (MSCI). However, the pace of repricing has slowed; the 25bps annual yield shift is significantly lower than that recorded in June 2023, of 186bps.

RENEWED SENSE OF OPTIMISM

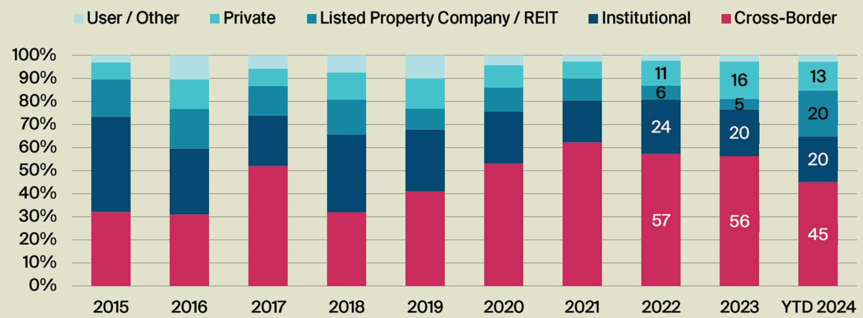
Given the swift repricing of logistics assets over the past two years and the recent interest rate cut from the Bank of England, H1 2024 saw a renewed sense of optimism amongst buyers and sellers and a growing consensus that now is an attractive time to enter the market. A rate cut of 25bps has since materialised, sending an important signal to investors, and the outlook for the market now appears much more stable.

Investment volumes
£million



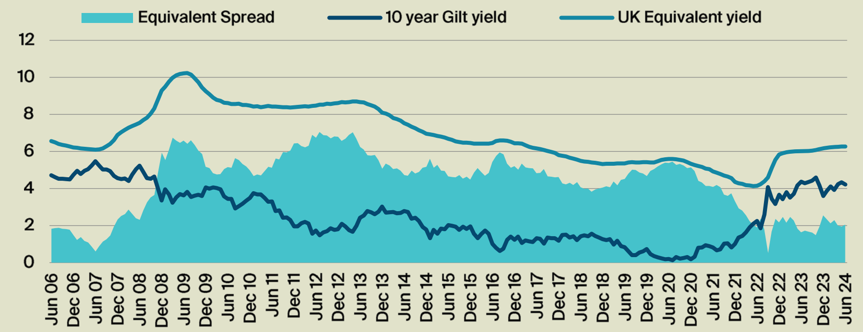
Source: Knight Frank Research, RCA

Capital composition
%



Source: Knight Frank Research, RCA

Industrial yields
%



Source: Knight Frank Research, Macrobond, MSCI

Industrial & distribution

Take-up activity gathers pace, while rental growth continues despite increased supply.

PICK UP IN TAKE-UP ACTIVITY

UK industrial take-up figures show 9.5 million sq ft of space committed in Q2 2024, 21% ahead of the previous three-month period and the highest quarterly total recorded since Q3 2022 (units 50,000 sq ft+). Although several large deals boosted the quarterly total, 81% of the completed transactions (by count) were for units under 250,000 sq ft in size.

Take-up for H1 2024 was ahead of both the first and second half-yearly volumes in 2023, reaching 17.3 million sq ft. In addition, the sizeable amount of space under offer at end-June should further improve volumes for H2 2024.

SUPPLY INCREASE DRIVEN BY SECOND-HAND UNITS

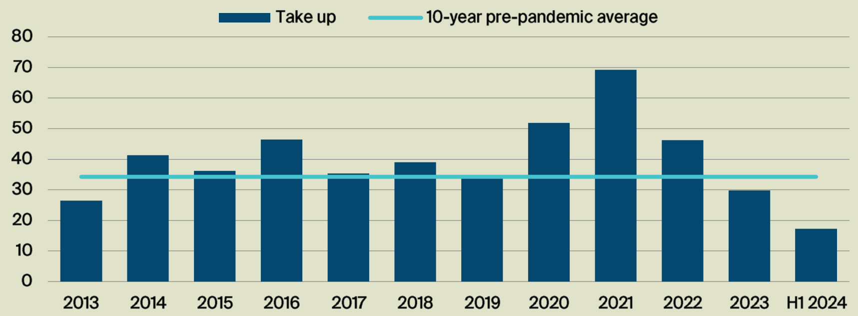
Supply levels continued its upward trend in Q2, albeit at a more moderate rate compared to Q1. The supply of existing available floorspace increased by 6.6% in Q2, down from a 19% rise seen in the previous quarter (units 50,000 sq ft+). The Q2 uplift was entirely driven by the return of second-hand space, with the supply of new-build units edging down by 1.4%. The rise in supply produced a vacancy rate of 6.9%, and although reaching a 10-year high, it remains below the 10-year pre-pandemic average.

Despite a rise in vacancy for the UK overall, a fall in vacancy occurred in some regional markets, including Wales, Scotland and West Yorkshire & the Humber. In addition, the volume of speculative space under construction increased by 18% in Q2 but is 28% lower on an annual basis and new development of units over 50,000 sq ft remains limited in some regional markets.

NEW DEVELOPMENTS CONTINUE TO SET NEW HEADLINE RENTS

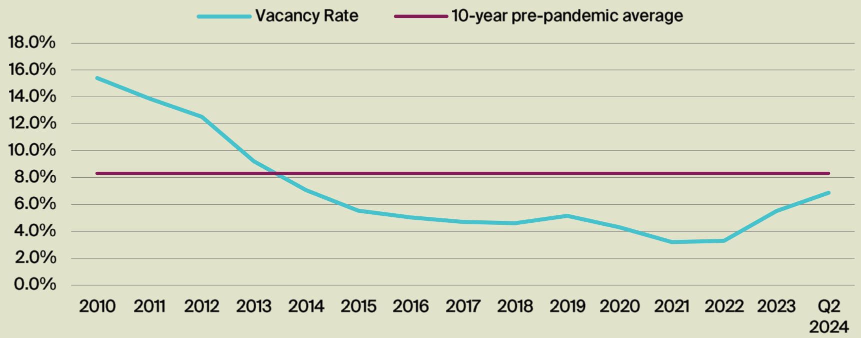
Annual market rental value growth in the year to June 2024 was +6.3%, down from +6.8% in March 2024 and +7.8% in June 2023 (MSCI). Though the pace of rental growth has decelerated, new developments continue to set new headline rents. Rental growth for prime units over 50,000 sq ft was +7.8% in the year to Q2 2024.

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

Retail & leisure

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

CONTACT: EMMA BARNSTABLE

Retail

Capital markets show signs of revival as liquidity returns and full-year forecasts upgraded across the board.

CONSUMER DEMAND WOBBLES

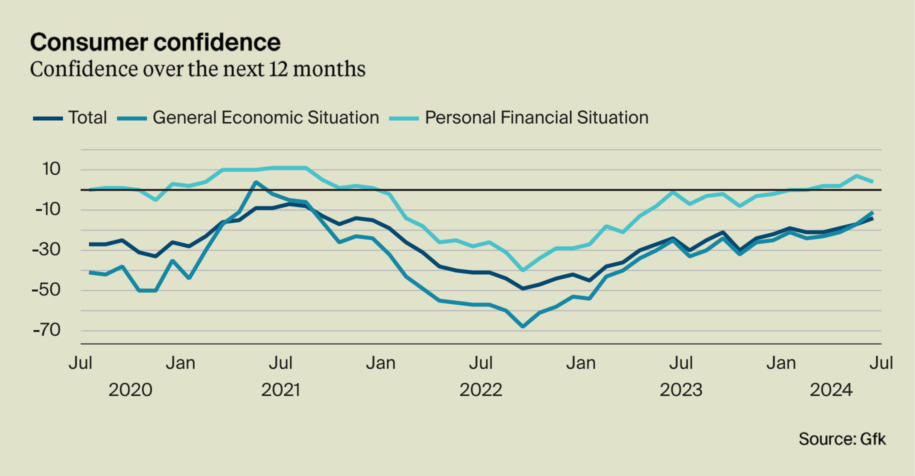
The narrative suggested easing consumer pressures and improving confidence as inflation returned to more 'normalised' levels (CPI 2.1%). The prospect of a new government also brought hope for change. However, increased spending power did not translate into retail sales, which were disappointing. Q2 sales grew a modest +0.5%, down from +3.5% in Q1, with volumes falling -0.5%, worse than the -0.2% decline in Q1. Adverse weather undoubtedly negatively impacted sales and suppressed appetite for spring/summer ranges, both in-store and online.

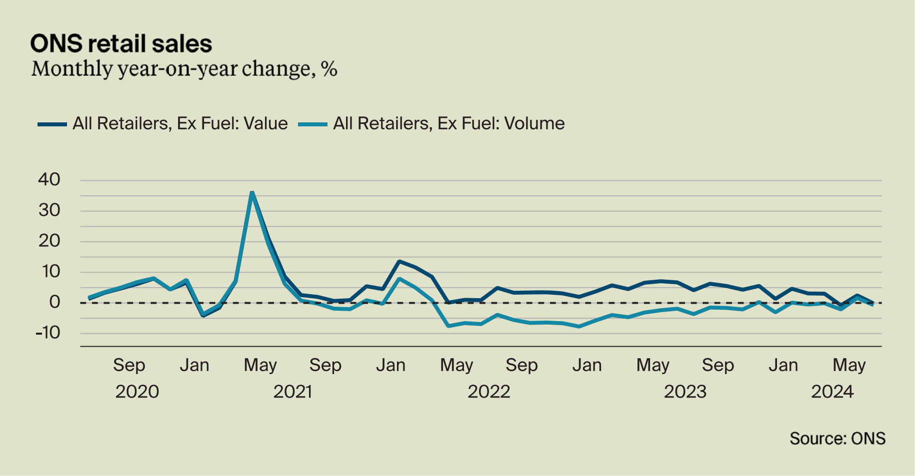
STABLE OCCUPIER MARKETS

Many fashion operators disappointingly resorted to heavy discounting to drive sales. But most reported operational improvements under easing input costs, increasing profitability. Progress was highlighted in many turnaround and growth strategies (M&S, Decathlon, Pandora), while others (JLP, Matalan) are still navigating transformative periods. Select brands announced new expansion plans/store investments (Greggs, Mango, Superdrug). Distress was limited to Muji, which placed its European arm into administration, though rumours swirled around Carpetright, and more news unfolded from Ted Baker, Superdry and Cineworld.

UPGRADES ACROSS THE BOARD

Investment markets had a slow start to H1 (£2.23bn), below both H1 2023 (£2.89bn) and the 10-year average (£3.65bn). However, the tide appears to be turning, with low volumes driven by a lack of stock rather than absence of buyers. Improving occupational dynamics and prospects of imminent price improvements are encouraging many owners to hold. Undersupply has generated competitive bidding, and yield compression is expected in H2. MSCI's annual total return forecasts have upgraded since the start of 2023 to 8.0% for Retail (previously 6.5%, and vs 5.8% All Property), with revisions across the board: RWH 9.6% (previously 8.8%); SC 7.2% (5.9%); and HS 6.7% (5.6%).





High street retail

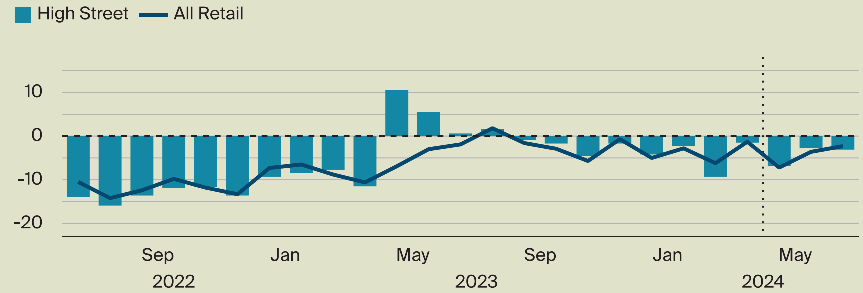
Prime yields stabilise with competitive bidding creating signs of future downward pressure on pricing.

FOOTFALL & VISITS IMPACTED BY RAIN
Consumer confidence may have improved to its highest point since 2021 in June (-14pts), but shoppers were far from jubilant. Many opted to stay in the comfort of their homes for much of the quarter, as exceptionally wet and windy weather deterred high street footfall (April -6.9%, May -2.7%, June -3.1%). Major UK city destinations fared little better (April -7.3%, May -3.3%, June - 1.1%). Retail sales saw a modest increase (+0.5%) as a result, with sales failing to shift online, as the proportion of online sales fell by -10bps to 26.2% of all retail sales.

MASS DISCOUNTING TAKES HOLD
High street operators largely engaged in mass-discounting strategies in the face of weak consumer demand for spring/ summer stock, attempting to 'buy' sales growth. High street stalwarts H&M and Next both warned that Q2 sales are expected to be weaker, following relatively strong periods (Next: +5.7% to April, H&M: +3.0% to May). Other operators announced positive performance during the period: Flying Tiger revealed its 'best quarter ever'; Primark sales soared by +7.5% to March; and Greggs sales increased by +13.8% to June. Vacancy rates held steady at 14.0%, with limited occupier fallout during the quarter – Miniso being the only notable distressed retailer.

INVESTMENT VOLUMES UNDERWHELM
Deals in H1 2024 underwhelmed at £230m, approximately 60% below the 10-year average, principally driven by the low availability of larger lots. Few investors are repeat purchasers, with buyers typically well-capitalised private investors and property companies, often with a geographical bias. Select institutions have active requirements for large, prime blocks. Prime yields held steady at 7.00%, but select assets in top-tier locations with rebased rents and small lot sizes are outperforming this (e.g. 6.85% NIY for 41-43 St Peters St, St Albans, and 6.50% NIY for 3-4 Market Hill, Cambridge), with competitive bidding driving pricing.

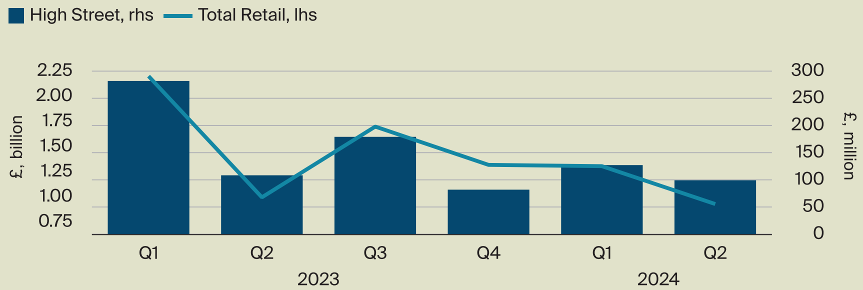
High street footfall
Monthly year-on-year change, %, vs. 2019 levels



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

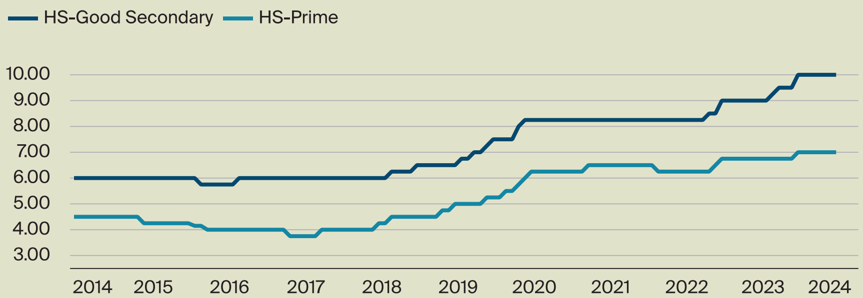
Source: BRC / Springboard

High street investment volumes



Source: Knight Frank

High street yields
%



Source: Knight Frank

Shopping centres

Buyer pool at its deepest in five years, with liquidity returning as high street lenders re-enter the sector.

CONCERNING TRENDS IN RETAIL SALES

Retail sales disappointingly grew only modestly (+0.5%) in Q2, with volumes declining by -0.5% compared to the previous quarter's drop of -0.2%. Non-food sales were particularly weak, with sales values (-0.6%) and volumes (-0.5%) both decreasing. Performance varied: Watches & Jewellery sales fell by -6.8%, and Books by -4.4%. But Footwear and Cosmetics grew by +3.8% and +10.6% respectively. Clothing sales were notably concerning, with values and volumes down by -5.8% and -7.2%. A worrying trend, as clothing sales have contracted at an average monthly rate of c. -3.5% over the first six months of 2024.

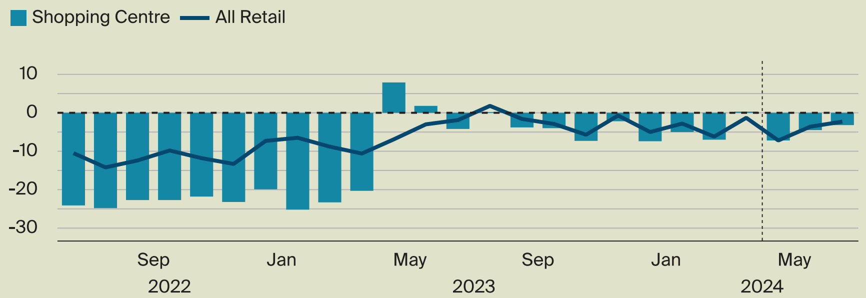
LEASING AT FIVE-QUARTER HIGH

Leasing rose to a five-quarter high, according to CoStar, with some of the largest retail leases taking place in shopping centre schemes. Frasers Group was notably active, acquiring 92,500 sq ft in Queensgate Centre, Peterborough, and 102,000 sq ft in Fremlin Walk, Maidstone. Sports Direct also signed leases for 50,000 sq ft in Midsummer Place, Milton Keynes, and 25,000 sq ft in the former BHS store in Ipswich's Buttermarket. Improving activity was echoed by Capital & Regional, who reported an average +8.8% rental premium on its deals, resulting in an +17.1% increase in its net rental income.

INVESTMENT MARKETS REVIVING

Capital markets showed increasing signs of life across H1 with deal volumes reaching £714m. The buyer pool is now the deepest it has been in the past five years, with strong competitive tension among top bidders. While pricing improvements have yet to materialise, liquidity is robust, and high street banks are beginning to lend to the sector again. Key deals included Landsec's acquisition of an additional 17.5% stake in Bluewater from GIC for £120 million, and the sale of Kingdom Shopping Centre, Glenrothes, to private equity firm Focus Fund, marking its second UK shopping centre purchase.

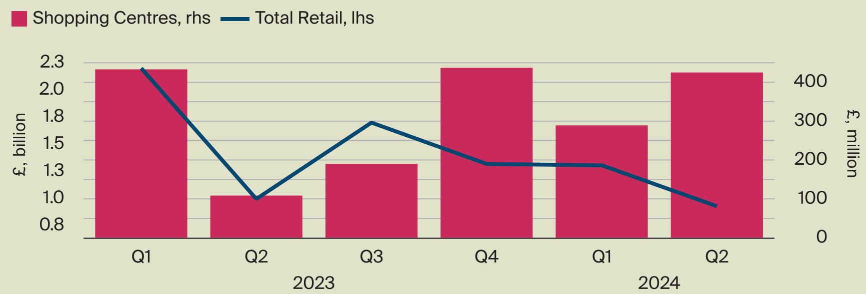
Shopping centre footfall
Monthly year-on-year change, %, vs. 2019 levels



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

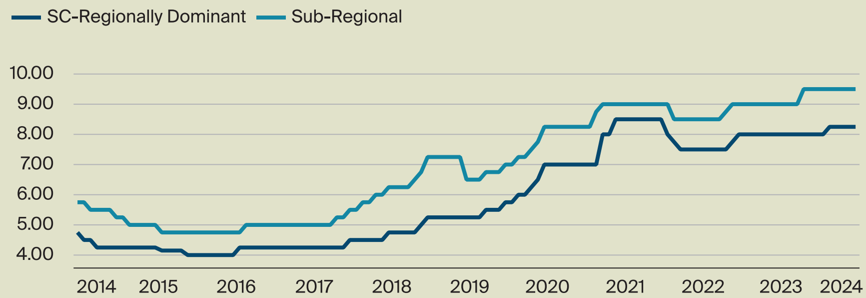
Source: BRC / Springboard

Shopping centre investment volumes



Source: Knight Frank

Shopping centre yields
%



Source: Knight Frank

Out-of-town

Mid-market buoys deal volumes, with a lack of prime institutional grade stock coming to the fore.

VARIED CONSUMER DEMAND

Consumers' outlook on personal finances (+4pts) tracked substantially above overall confidence (-14pts) and that in the wider economy (-11pts). But demand for out-of-town categories was a mixed bag with no clear-cut trends between bulky goods and/or discretionary/ essential purchases. Quarterly sales were more robust across Sports Equipment & Toys (vals +5.3% / vols +4.9%), Gardening Centres & Pets (+4.7% / 5.4%) & Carpets (+3.7% / 3.5%). But noticeably softer across Food (-0.1% / -2.5%), DIY (-0.5% / 0.0%), Electrical Appliances (-3.5% / +1.4%) and Furniture (-12.7% / -11.2%).

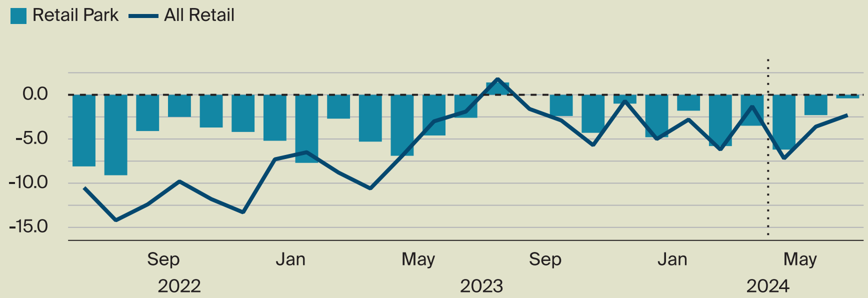
DIVERSE OCCUPIERS - MIXED RESULTS

The uncertain and challenging trading environment was reflected in operators' updates. Wickes reported a -4.2% dip in like-for-like sales but remained firm on annual profit expectations. Halfords saw annual profits slide by -7.9%, attributing this to low consumer confidence in big-ticket items. Others set bold targets buoyed by stronger performance: Home Bargains is aiming for 1,000 stores after a +10.2% increase in annual turnover. Adidas' plan to debut its latest store concept in two retail parks highlighted the growing diversity of the format's retail mix, and enduring appeal to different operators.

LACK OF STOCK HOLDS DEALS BACK

Modest deal volumes of £620m were registered in H1 2024, down 38% on H1 2023. A lack of sellers, rather than a shortage of buyers, is holding the sector back. A dearth of stock is heightening competitive tension and has put downward pressure on yields, which compressed -25 bps during the quarter to reach 5.75%. Most institutional investors hold a retail warehousing requirement, but most are focused on a similar core product in London, the South East, and select prime centres. Such availability of stock is low. Transaction volumes are principally being held up by activity in the mid-market, which continues to be dominated by Realty Income, British Land and Columbia Threadneedle.

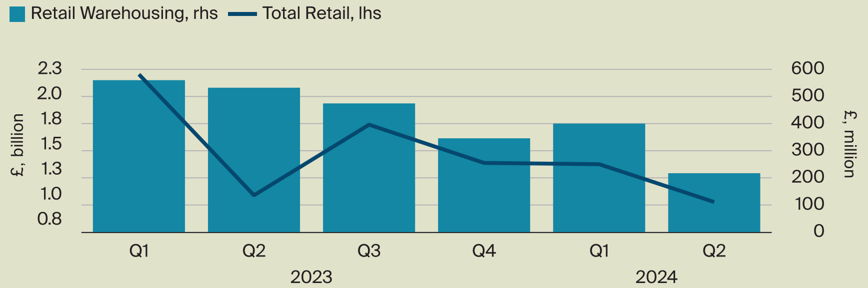
Retail park footfall
Monthly year-on-year change, %, vs. 2019 levels



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

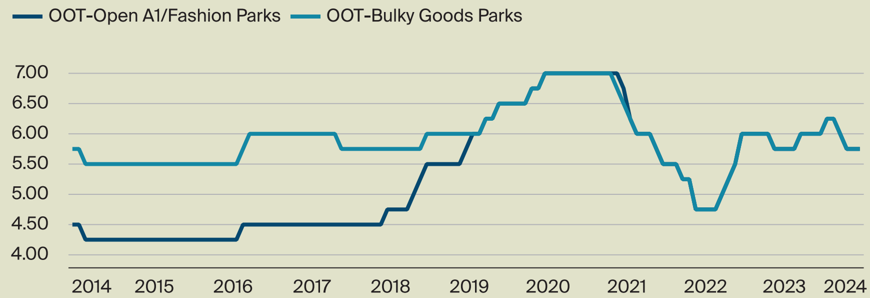
Source: BRC / Springboard

Retail warehousing investment volumes



Source: Knight Frank

Retail warehouse yields
%



Source: Knight Frank

Leisure

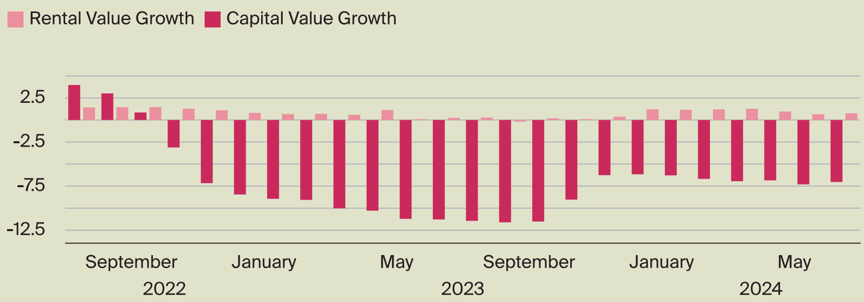
Operators welcome gradual recovery, but challenges persist, with site expansion some way off.

LEISURE SPEND OUTPERFORMS RETAIL
Brits enjoyed some of the UK's best leisure events in Q2 (Grand National, Chelsea Flower Show, Glastonbury, Isle of Wight Festival), with Hospitality and Leisure spend stronger than Retail according to Barclaycard data: April (+4.1%/-0.1%), May (+2.7%/-0.4%), and June (+3.0%/-2.6%). Cinemas enjoyed their busiest day (+122%) thanks to the release of 'Inside Out 2.' But spend at Pubs, Bars, and Clubs was modest in June (+0.5%) despite the Euros kick off. Takeaways and Fast Food also experienced their first decline in four years (May -0.2%), flanked by two strong months: April (+4.1%) and June (+4.4%).

OPERATOR EXPANSION SOME WAY OFF
At the beginning of 2024, green shoots began to emerge, with site closure rates slowing and select operational pressures easing. Improvement continued in Q2, with 38% of hospitality leaders reporting a reduction in energy costs (up from 8% in Q1), according to CGA. Additionally, only 35% cited staff shortages, down from 64% in 2023. However, challenges remain: 96% reported wage pressures, and 87% revealed increases in food and drink costs. Widespread market expansion is still a way off for many operators, with 51% planning to increase capital investment in 2024 vs 49% who intend to maintain or decrease.

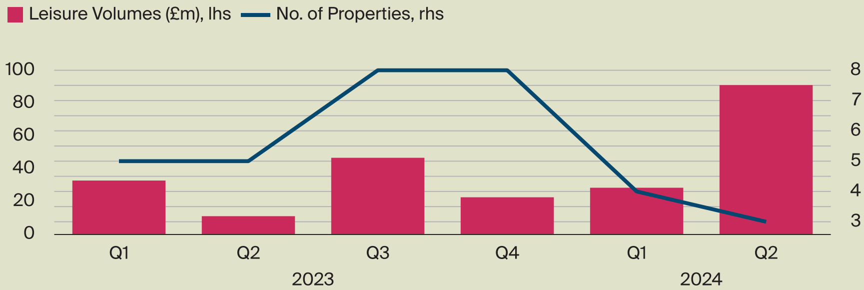
REIT M&A BOOST INVESTMENT DEALS
Investment volumes totalled £90.9m according to RCA, an increase from Q1 (£28.2m). Volumes were buoyed by the corporate merger between Tritax Big Box and abrdn Management UK Commercial Property REIT (UKCM), creating the UK's fourth largest REIT with a combined market capitalisation of £3.9bn. Tritax merged several leisure assets with UKCM including Kingston's The Rotunda, Swindon's Regent Circus, and Glasgow's Cineworld. Other leisure deals involved smaller lot sizes and included the sale of Nottingham's Virgin Active to Conygar Investment for £5.9m and a Knight Frank disposal of Brighton's ODEON to Brighton Shore Ltd for £8.5m on behalf of abrdn.

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



Source: MSCI

Leisure investment volumes



Source: RCA

Leisure yields
%

Source: Knight Frank

Foodstores

Investment volumes cool as price variance emerges between the leading grocery operators.

FOOD SALES UNDERWHELM

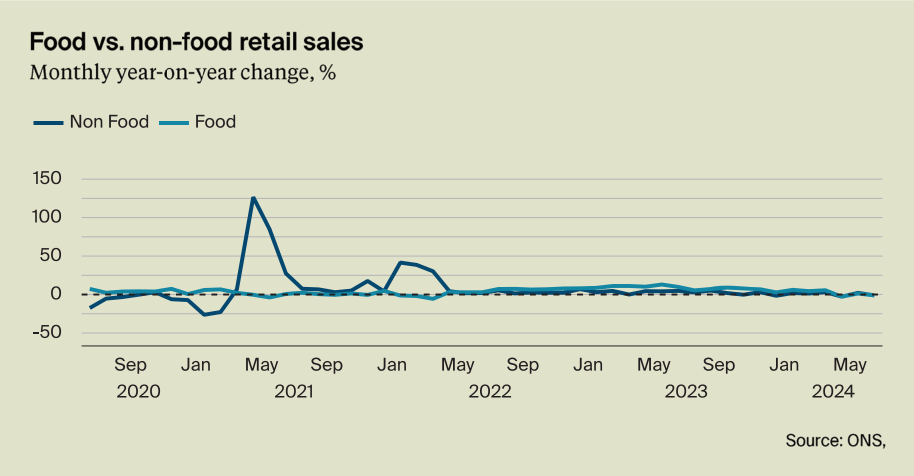
Food inflation eased for the fourteenth consecutive quarter to 2.5%, according to the BRC, well below the 12-month average of 7.4%. Prices fell in one-third of tracked grocery categories, including milk and butter. Despite this, ONS food sales were exceptionally weak, showing negative value growth of -0.1% (Q1: +4.8%). Volumes declined by -2.5% (Q1: -0.8%), disappointing after six quarters of improvement. Weather influenced heavily, with monthly average grocery visits down to 16.3 (previously: 16.4) and a preference for winter warmers over summer staples (e.g. soup sales +24% vs. prepared salads -11%).

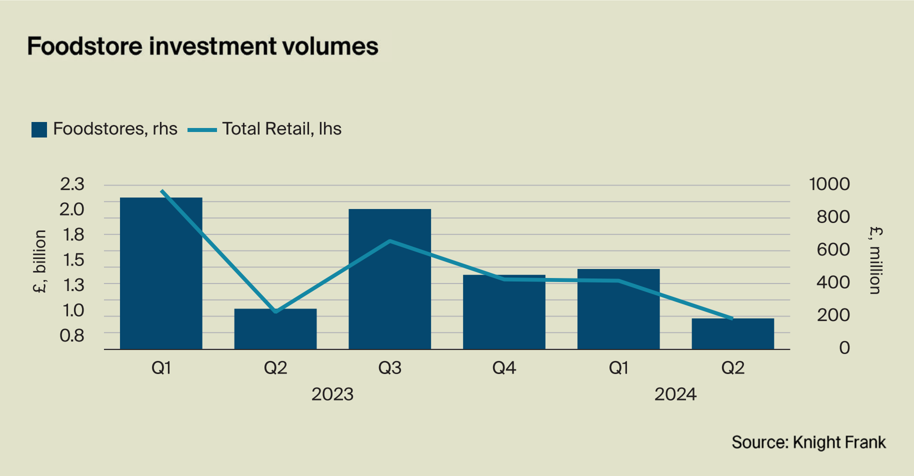
OPERATOR INFLATION EASES

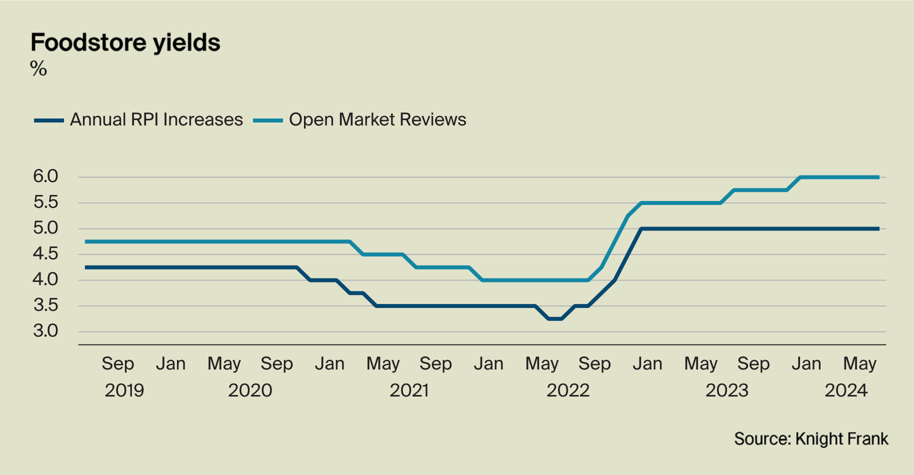
Despite conflicting with ONS sales figures, operators reported solid trading momentum. Tesco raised its profit forecast to £2.8bn for FY24/25, citing volume growth in the second half and achieving its highest market share (27.7%) since February 2022. Sainsbury's reported 'market-beating performance' in its Q1, with sales up +4.8% over the 16 weeks to June. Morrisons maintained an 8.7% market share and announced plans to open 400 more Daily format stores, aiming for 2,000 by FY25. Asda, despite revealing a return to profit, saw its market share drop to 12.7% in Q1 (down from 13.8%) as it battled worker strikes.

DEALS TEMPER FROM RECORD HIGHS

H1 2024 volumes at £680m were comparable with the 10-year average, with 23 deals completing. Although down versus the corresponding period in the year prior, this was unsurprising given the record activity witnessed in 2023 with several big-ticket portfolio deals. Demand for foodstores remains broad with very few assets 'unsold' over H1. However, price variance between covenants is greater than seen for some time, with private equity acquisitions of Morrisons and Asda softening investors' pricing requirements. In common with the other retail sub-sectors, total return forecasts for the year were upgraded to 6.5% (previously 5.7%).







Central London

Investment deals run hot as cross-border capital returns to acquire trophy assets.

INTERNATIONAL RECOVERY SLOW

West End spend was volatile across Q2 according to NWEC (April -3.6% year-on-year, May +2.6%, June -0.6%), resulting in a modest +0.3% increase YTD. Spend from international visitors is improving, but domestic spend still dominates at 60%, with the loss of tax-free shopping still being acutely felt. Footfall did show improvement year-on-year (April +2.1%, May +1.5%, June +2.8%), though The Crown Estate noted it is still down -15% compared to pre-pandemic levels. Average dwell times also increased, but varied by pitch: Bond Street down c. 30% year-on-year vs. Oxford Street surging c. 54% due to new retail and leisure attractions.

TAKE-UP ACCELERATES ON Q1

Take-up activity increased by +35% in Q1, according to CoStar, with strong West End performance. TKMaxx secured 22,500 sq ft on Oxford Street, while Abercrombie & Fitch leased 10,000 sq ft at Hines' new Burlian scheme. Peak Performance announced its debut in Covent Garden; Carhartt revealed it will open a 4,000 sq ft flagship on Brewer Street (Soho), and Emma Sleep chose Westfield London for its first physical store. Consequently, major landlords reported improved rent rolls, e.g. The Crown Estate stating store rents are 'already showing growth' with an average increase of +4% above estimated values.

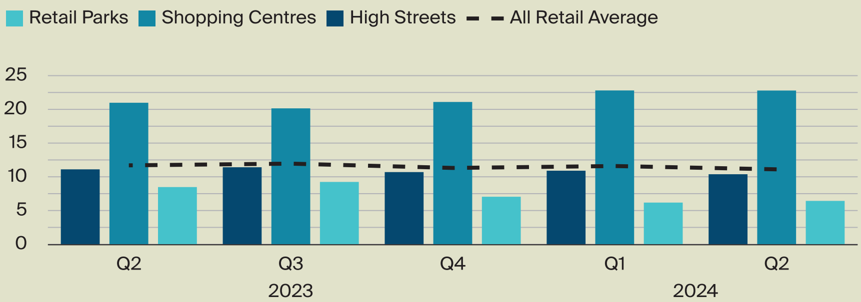
INVESTMENT ACTIVITY RUNS HOT

£434m worth of deals transacted in Q2 according to RCA, surging +114% on Q1 (£202m). Desire by luxury brands to occupy space on the world's most famous streets drove deals: Richemont acquired Boodles' flagship at 178 New Bond Street for £82m. US investors were notably active, with cross-border flows turning positive after two years of negative net acquisition. Ares acquired the majority of Shaftesbury Capital's Charlotte Street 'Lifestyle' portfolio for £60.6m, whilst Blackstone acquired 130-134 New Bond Street for £230m, leased to luxury watchmakers Breitling and Audemars Piguet, and shoemaker Church's. A strategic shift for Blackstone, which is now exploring retail as values stabilise.

West End footfall
% change year-on-year

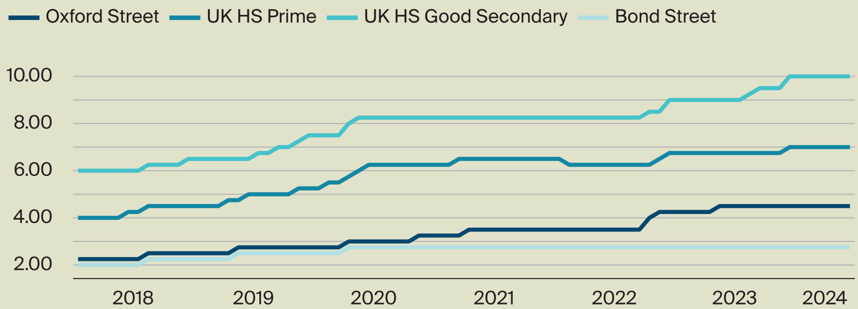
Source: New West End Company

Vacancy rates*
% units
*Greater London



Source: Local Data Company

Yields
%



Source: Knight Frank

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 UK data centre trends in 2024.

INVESTMENT VOLUMES SURGE IN Q2

Strong activity during the second quarter saw UK investment for 2024 so far top £800 million, with £640 million investment during the second quarter.

KKR funder Global Technical Realty were responsible for the largest transaction of the period, which saw the acquisition of a 33.6 acre industrial site in Southall, West London for £315 million.

Blackstone completed its £110 million acquisition of the former BritishVolt site in Northumberland. Alongside this, Digital Realty completed its deposition of the LHR19 facility in London Docklands for £49 million at an exit yield of 5.5%.

At the onset of Q3, Digital Realty completed a £156 million acquisition of a two-facility 15MW data centre campus on the Slough Trading Estate.

TIGHTENING MARKET AVAILABILITY

Market availability across the UK continues to tighten, now operating at a sub-9% vacancy rate. As a result, the market is witnessing a growing trend of pre-leasing, with just under three-quarters of space currently under construction being pre-let.

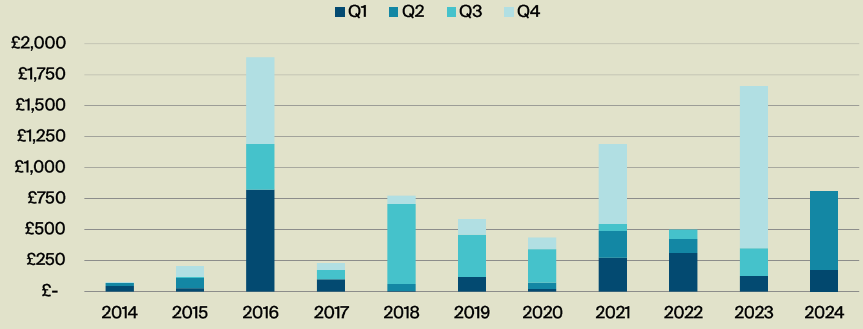
In London, particularly in its core western markets, the vacancy rate consistently remains below 5%, with space currently under construction being 74% pre-let.

TAKE-UP VOLUMES REMAIN STRONG

After a successful start to 2024, take-up volumes have remained strong during Q2 2024, with 24MW worth of space transacted. This follows the successful pre-leasing of phase one, 16MW, at CloudHQ's ENG1 facility in Didcot, as well as 4.4MW at Kao Data's new Harlow Campus, alongside some other smaller transactions.

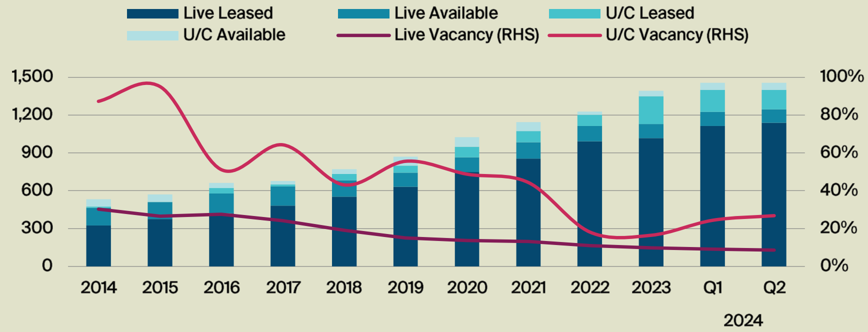
The growth of live IT continues to be impeded by power availability, particularly in West London. Key energy infrastructure projects in this region, such as Iver-B, are facing delays until 2029. New applicants today can expect to wait until at least 2034 for new allocations.

Investment volumes
£million



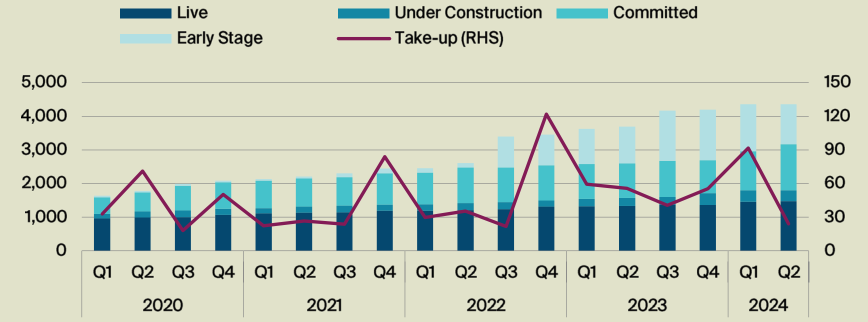
Source: Knight Frank Research, RCA

Availability & vacancy
MW / %



Source: Knight Frank Research

Supply & take-up
MW



Source: Knight Frank Research, DC Byte

Healthcare

2024 continues with first quarter momentum.

RETURN OF THE USUAL SUSPECTS

Whilst we saw investors stepping back to gauge markets and, in the process, almost halving the sector's transactions in 2023, 2024 has presented a more positive trend and sentiment.

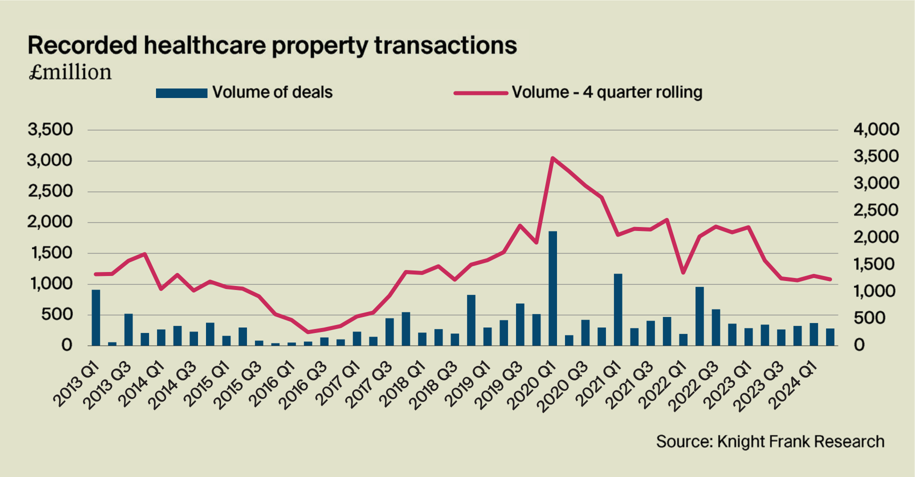
Amidst the dip in overseas capital, we are also seeing a trend of an "evening out" in the level of portfolio and single-asset transactions. With the percentage of portfolio deals falling to just over 50%, it is clear to see that the absence of key market participants has shifted this composition due to the absence of scale within transactions.

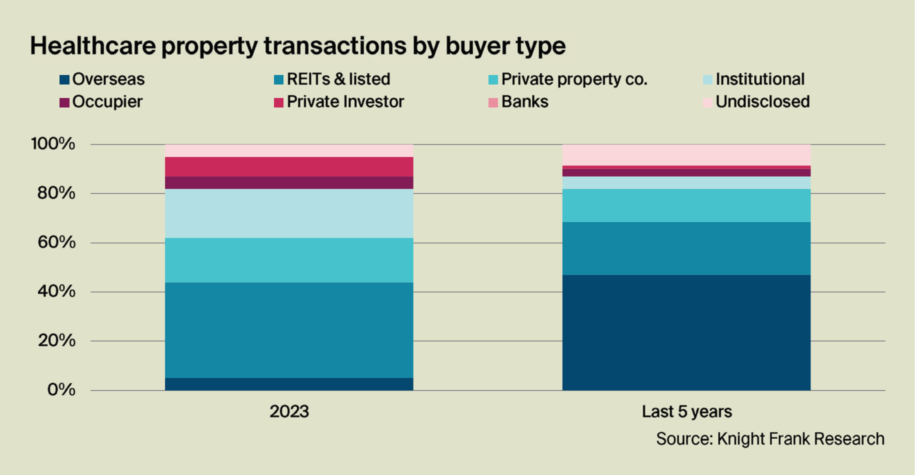
There is, however, light at the end of the tunnel. Several key portfolio deals, notably for operational platforms like Hartford Care and Berkley Care, completed in H1 2024. Familiar names such as Elevation have been active on the buy-side whilst a number of the domestic REITs have been active on the sell-side, which may be a result of balance sheet and liquidity requirements.

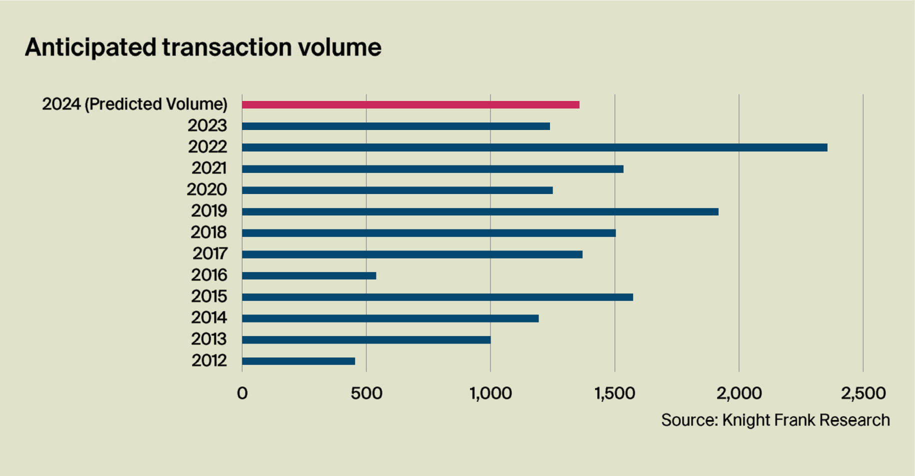
OVERSEAS CAPITAL TAKES A BACKSEAT

Following 2023's dip (25% from 31%), overseas capital remains muted. This has, however, been offset somewhat by more active institutional and private capital. Consistent and organic transaction levels without large outlier portfolio deals suggest the sector is experiencing sustainable demand, which is comforting in the long run.

With key market participants already transacting in H1 2024, the overall outlook for the healthcare sector is positive. We anticipate more significant volumes and a general normalisation of the sector.







Healthcare

Undersupply of quality stock remains an issue.

CARE PROVIDERS CONTINUE TO PROVIDE COMFORT

The positive sector sentiment continues to be built upon the foundation of strong operational metrics.

2023 highlighted an improvement of 6% in average occupancy levels, which has continued to strengthen to where we are seeing most operators trading at pre-pandemic levels, as well as several investors reporting strong operational performance and increasing rent covers amongst their portfolios.

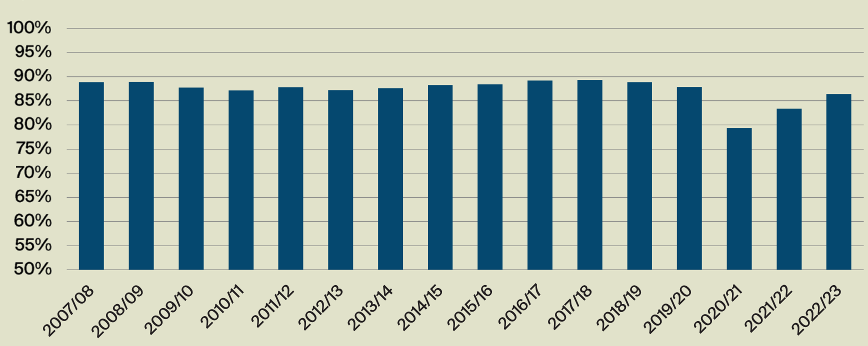
MINIMAL BED SUPPLY GROWTH

2023 saw bed numbers grow by 519 beds. Whilst bed supply has grown 3% over the last decade, the over 65 population has grown by around 16% over the same period.

There has been a trend of greater deregistrations over the last five years. This is because much of the deregistered stock consists of smaller, and older assets, which are naturally being replaced by newer, larger, purpose-built homes. It is also important to note that improvements in the data pool and sources have maintained the level of beds captured among the losses.

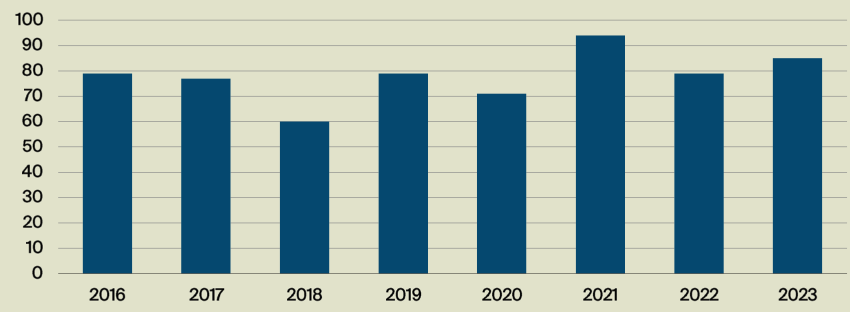
Considering the minimal growth in supply numbers, it is more than clear that we need to build more homes to service our ageing population. The demographic shift is such that by 2050 we anticipate a shortfall of more than 200,000 beds.

Occupancy



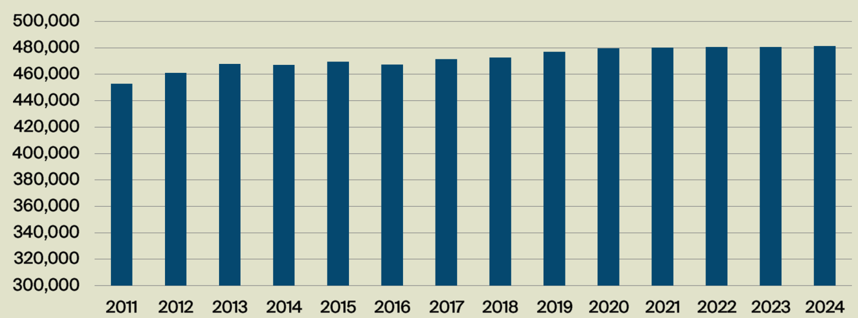
Source: Knight Frank Research

New UK care homes completed



Source: Knight Frank Research

Elderly Care Home Beds



Source: Knight Frank Research

Life sciences

The sector is displaying signs of optimism due to UK political stability, an improved economic outlook, and increased venture capital funding in pharma and biotech, but challenges remain.

OPTIMISM AMIDST CHALLENGES

There are bright spots this quarter, with venture capital funding in pharma and biotech showing signs of recovery, albeit at a more measured pace than during the pandemic. Post-election stability in the UK and improving economic outlooks also fuel optimism. A recent GlobalData pharma and healthcare survey revealed that 73% of industry professionals are optimistic about sector growth in the next year, up from 47% in 2023.

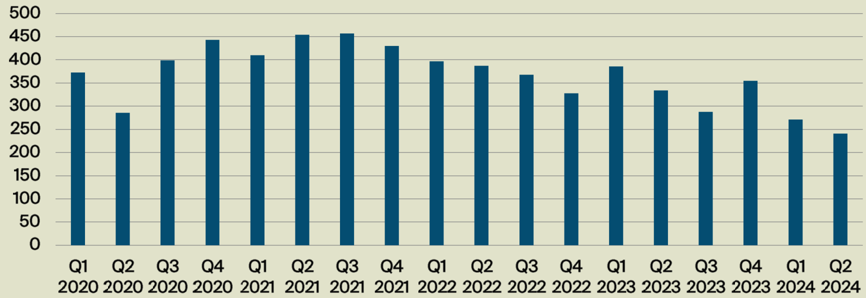
However, quarterly data reveals a mixed outlook for the UK life sciences sector. Despite some notable corporate investments, the sector is underperforming on multiple fronts, with a decline in foreign direct investment and clinical trial starts. Globally, life sciences occupiers face challenges such as patent expirations, funding constraints, ESG pressures, and supply chain disruptions.

The fundamentals of the UK life sciences sector remain sound. According to the latest QS ranking, the UK maintains its academic excellence, with four universities in the global top ten and Imperial College London taking 2nd place only to MIT.

Legal & General's new fund - aiming to invest £400m in UK businesses by the end of 2025 - is also a positive development, bringing that critical connection between the financial and life sciences sector. This relationship is essential for continued growth and innovation, which the new Labour government acknowledges. Perhaps most encouraging is the maintenance of the UK's strong position in high-growth fields such as AI-driven drug discovery, ranking second worldwide in venture capital funding this year. This rapidly expanding sector shows no signs of slowing down and is poised for sustained growth.

UK clinical trial study starts

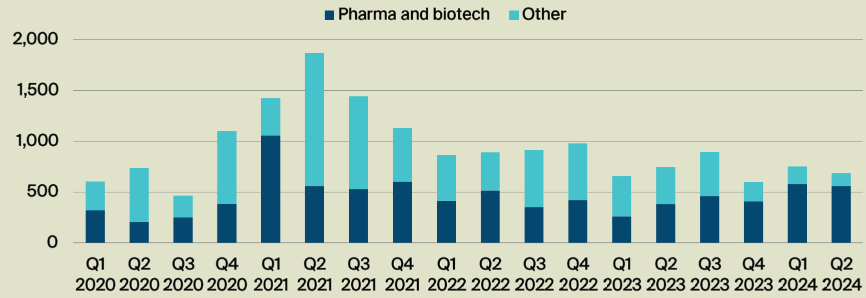
Number of clinical trial studies started in the UK



Source: Knight Frank Research, Clinicaltrials.gov

UK life sciences venture capital funding

VC funding into UK life sciences companies, £million

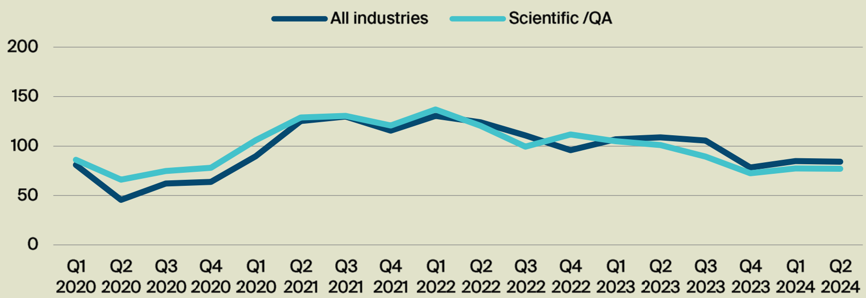


HQ only. Completed deals and full transactions only. Covers: Biopharma, MedTech and Digital health. Data as at 04/07/2024. The data in PitchBook is continuously updated to reflect the most current information. As a result, historical data may change over time.

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

Life sciences

Short-term real estate dynamics show more caution.

SLOWDOWN IN TAKE-UP, BUT OXFORD DEMAND RISES AND CAMBRIDGE HOLDS STEADY AS SUPPLY SIDE PLAYS CATCH-UP

Take-up in life sciences real estate within the Golden Triangle declined by 39% quarter-on-quarter, falling to 114,648 sq ft. We have observed some occupiers pausing before securing funding and reacting to ongoing macroeconomic and political uncertainty. Given that the sector is dominated by smaller companies, it's unsurprising that smaller space take-up dominates the market, with 82% of Q2 deals being under 10,000 sq ft. Key deals across the region saw Ellison Institute lease 27,800 sq ft of fully fitted lab and office space at Winchester House, Oxford Science Park.

Named demand requirements fell slightly to c.1.5m sq ft. Oxford has seen a 63% increase in demand for lab space quarter-on-quarter, now standing at 387,000 sq ft. Cambridge demand has held steady at 667,000 sq ft.

Cambridge has the most significant gap between available lab space and demand – 148,257 sq ft of available lab space compared to 667,000 sq ft of demand. It also only has another 157,420 sq ft set for delivery by the end of the year.

The shortage of stock is being met with development, with c.3.8m sq ft under construction across the region. Those on the supply side need to ensure they understand demand and build in flexibility, as well as offer a USP and clear identity.

GOLDEN TRIANGLE SEES SINGLE £33M LIFE SCIENCES DEAL, BUT £1.5BN PARTNERSHIP EMERGES.

Investment in life sciences commercial real estate across the Golden Triangle remains subdued, with only one deal completed this quarter.

The former Debenhams department store in Oxford town centre was acquired by Pioneer Group and The Crown Estate for £33m. This project marks the beginning of a partnership between the two groups and OSE, with long-term ambitions to invest up to £1.5bn to support the UK's science, technology, and innovation sectors.

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

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