

UK Real Estate Navigator



Q3 2024

A quarterly review of the UK commercial real estate market

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Global and UK economy

CONTACT: [VICTORIA ORMOND, CFA](#)



Global economy

Easing inflation and lower rates pave the way for global economic recovery

GLOBAL OUTLOOK: PATH TO RECOVERY

The last quarter was one of overall economic resilience. The global battle against inflation has largely been won, and interest rates are drifting downwards. While the IMF's global GDP growth forecast for 2024 remained unchanged in October at +3.2%, it downgraded its 2025 forecast by -10bps to +3.2%.

Meanwhile, economic growth expectations for the US have been upgraded for 2024. The IMF forecasts US GDP to grow by +2.8%, up by +20bps from its previous forecast in July. For the Euro Area, growth has been revised lower by -10bps to +0.8% in 2024. For 2025, the IMF expects the US to grow by +2.2% and the Euro Area by +1.2%.

Central banks continue with their easing cycles, with the Bank of England (BoE), European Central Bank (ECB) and US Federal Reserve (Fed) reducing interest rates to 4.75%, 3.25% and 4.75%, respectively.

GLOBAL BUSINESS ACTIVITY PICKS UP

The Global Services PMI rose to 53.1 in October, up from 52.9 in the month prior, remaining in expansionary territory (figure above 50) for the 22nd successive month.

Meanwhile, the Global Manufacturing PMI rose to 49.4, up from 48.7 in September.

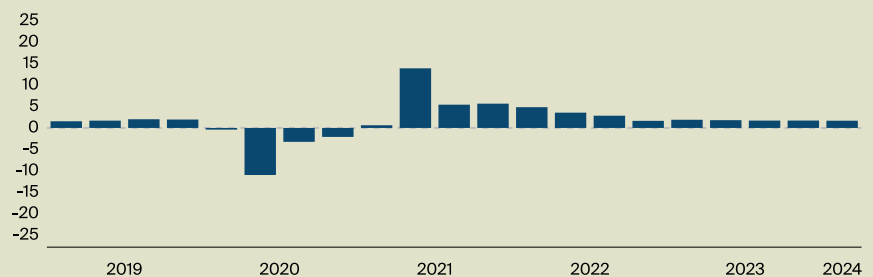
GLOBAL BATTLE AGAINST INFLATION NEARS FINISH LINE

Across the world, inflation figures mostly continue to fall and are approaching central bank targets, suggesting the fight against inflation may be nearing its end. However, downside risks remain, including heightened geopolitical tensions, financial market instability, and the ongoing rise in protectionist policies.

In the Euro Area, inflation picked up to 2.0% in October 2024, up from 1.7% in the month prior. Meanwhile, US inflation slowed for the sixth successive month to 2.4% in September, down from 2.5% in August.

Gross Domestic Product

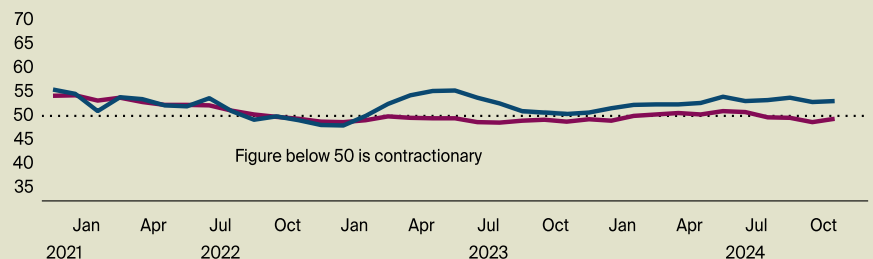
Quarterly OECD countries GDP growth, % change year-on-year, seasonally adjusted



Source: Knight Frank Research, Macrobond, OECD

Business Activity Index

Manufacturing PMI Services PMI

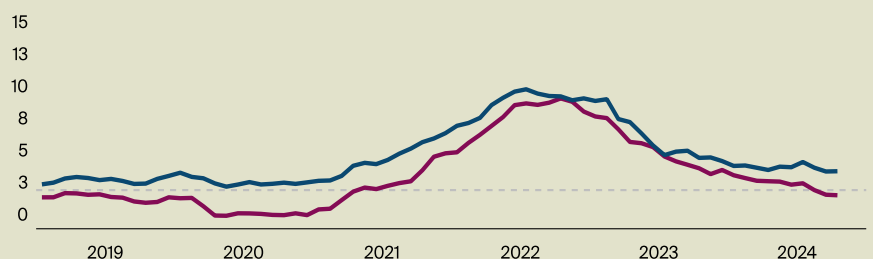


Source: Knight Frank Research, Macrobond, S&P Global /CIPS

Inflation

%

Advanced Economies CPI Emerging & Developing Economies CPI



Source: Knight Frank Research, Macrobond, World Bank

UK economy

The UK's growth outlook has been upgraded

UK GDP EXPANDED IN AUGUST

The UK economy expanded +0.5% quarter-on-quarter in Q2 2024, following +0.7% growth in the previous quarter. On a monthly basis, GDP grew by +0.2% in August, rebounding from flat growth in July.

In its October 2024 update, the IMF raised its UK GDP growth forecast to +1.1% for 2024, up from its previous estimate of +0.7% in July. For 2025, the IMF anticipates stronger growth, with UK GDP forecast to grow by +1.5%. This places the UK as the third-fastest growing economy among advanced nations over the next two years, trailing only the US and Canada.

The UK unemployment rate fell to 4.0% in the three months to August 2024, down from the previous three-month period and comfortably below the long-term average of 6.7%.

BUSINESS ACTIVITY REMAINS EXPANSIONARY FOR NOW

The UK Services PMI fell to 52.0 in October, from 52.4 in the previous month, marking its 12th consecutive month of expansion in services activity.

The UK Manufacturing PMI contracted to 49.9 in October, from 51.5 in September, the first decline in manufacturing activity since April 2024.

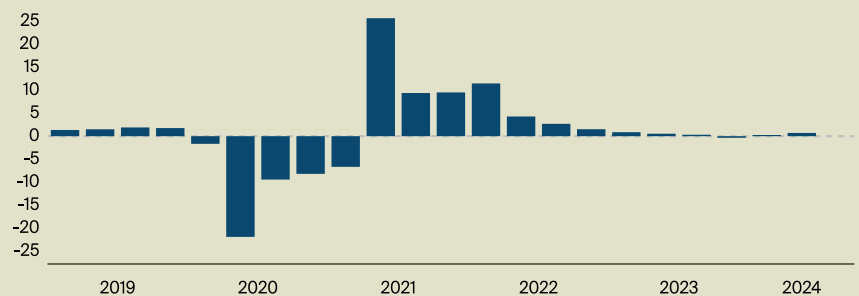
UK INFLATION FALLS BELOW TARGET IN Q3 2024

UK inflation fell sharply in September to 1.7%, below the BoE's 2% target for the first time in over three years. Oxford Economics expects UK inflation to drift up further to 2.4% by year-end, driven by upward pressure from the Ofgem energy price cap.

In November, the BoE resumed its easing cycle after taking pause in September, reducing the base rate by -25bps to 4.75%. Economists widely expect the BoE to keep rates unchanged at its final monetary policy meeting of the year in December. Capital Economics forecast a cumulative -150bps worth of cuts next year, with rates expected to fall to 3.25% by the end of 2025.

Gross Domestic Product

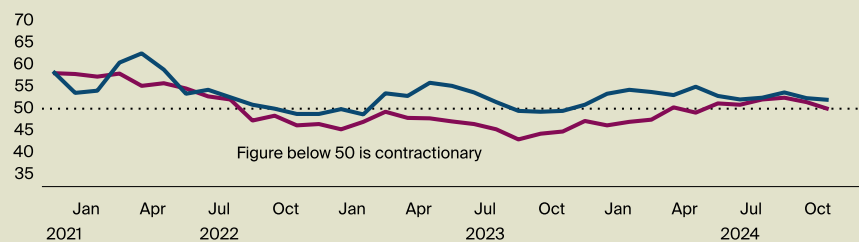
Quarterly UK GDP growth, % change year-on-year, constant prices, seasonally adjusted



Source: Knight Frank Research, Macrobond, ONS

Business Activity Index

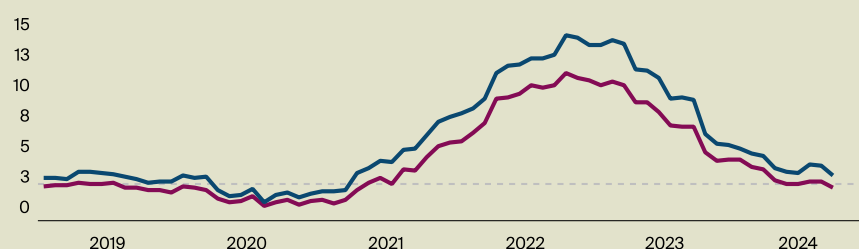
— Manufacturing PMI — Services PMI



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

Inflation

— CPI — RPI



Source: Knight Frank Research, Macrobond, ONS

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Capital markets

UK commercial real estate

CONTACT: [VICTORIA ORMOND, CFA](#)



Capital markets

The UK is the #1 largest recipient of cross-border private equity investment in 2024 YTD

INDUSTRIAL #1, OFFICE #2 IN Q3 2024

The UK remained the second most invested market globally and the top location for cross-border capital in Q3 2024. London also emerged as the leading global metro for cross-border investments over the year to date.

UK commercial real estate (CRE) investment totalled £8.8 billion in Q3 2024. This was a -25% decline on Q2 2024 investment, although a +12% expansion on Q3 2023.

Q1 - Q3 UK CRE investment totalled £31.4 billion in 2024, +9% above investment in the first nine months of 2023, and -23% below the Q1 - Q3 10-year long term average. Nonetheless, the UK appears to be ahead of many other markets in their recovery, with global and US CRE investment recording declines year-on-year in the first three quarters of the year.

Industrial continues to be heavily targeted by investors, recording the highest investment in Q3 2024 (£2.7bn). This was followed by Offices (£2.3bn), Retail (£1.5bn), Apartment (£1.3bn), Hotels (£0.8bn) and Senior Housing & Care (£0.3bn). Offices (+38%), Senior Housing & Care (+59%) and Industrial (+9%) were the only sectors to record an increase in investment quarter-on-quarter.

Cross-border capital was less active in the UK in Q3, with overseas investment down -42% quarter-on-quarter to £3.6bn and contributing to 41% of UK CRE volumes in Q3 2024.

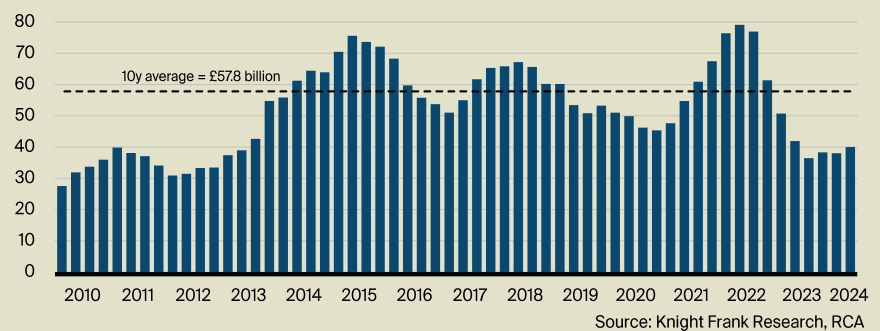
UK CRE: OVERSEAS PRIVATE EQUITY REMAINS ACTIVE

The UK has been the largest recipient of cross-border Private Equity (PE) investment over the year to date by some margin (\$6.6bn into UK real estate, vs \$1.9bn into Singapore, the second largest recipient of PE investment). This surge is particularly significant, as private equity is often a leading indicator of market recovery, targeting early-cycle opportunities and signalling strong future growth potential for the UK CRE market.

UK quarterly investment volumes

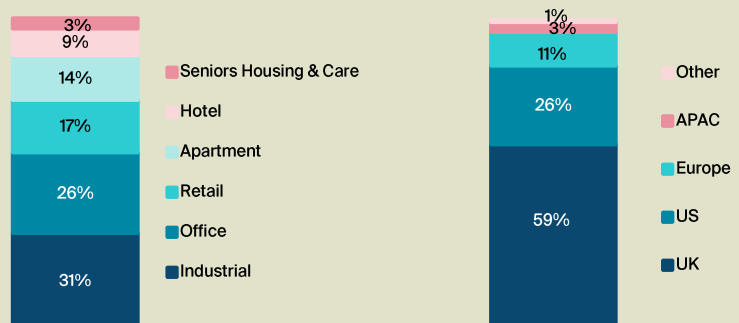
Quarterly investment volumes, rolling average

--- 10y Long Term Average ■ Investment Volumes (Rolling Annual, £bn)



Investment volume breakdown

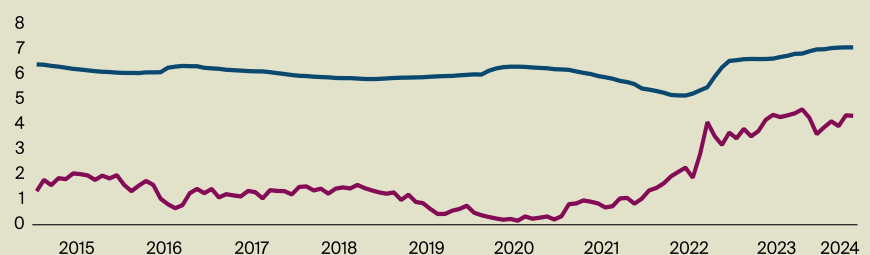
% of Q3 2024 volume



Property Equivalent Yield and UK 10 Year Gilt Yield

%

— UK 10 Year Gilt Yield — MSCI All Property Equivalent Yield



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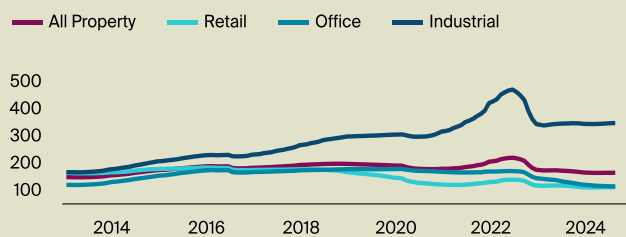
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Capital markets

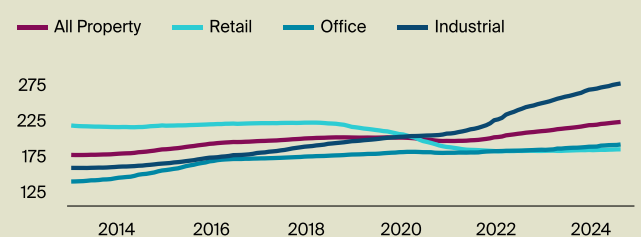
The IPF forecasts the Industrial sector to deliver the strongest capital and rental value growth in 2025.

MSCI Capital Value Growth Index
Dec 1986 = 100



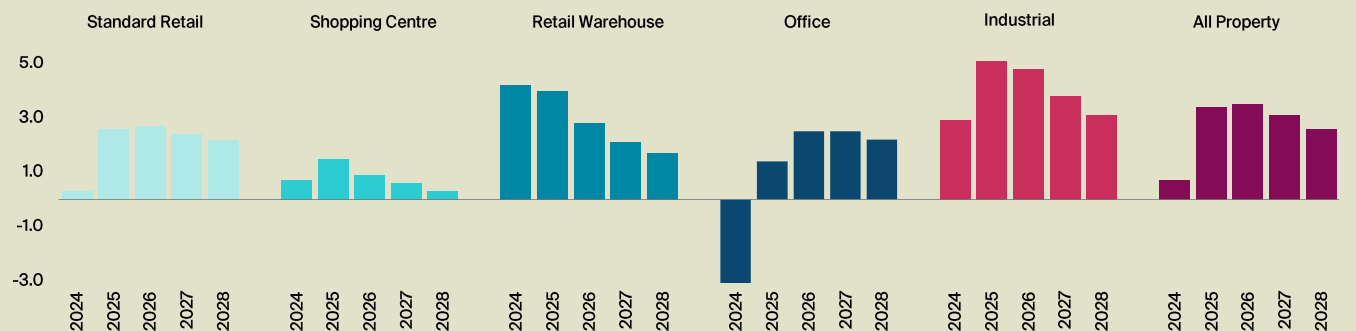
Source: Knight Frank Research, MSCI

MSCI Rental Value Growth Index
Dec 1986 = 100



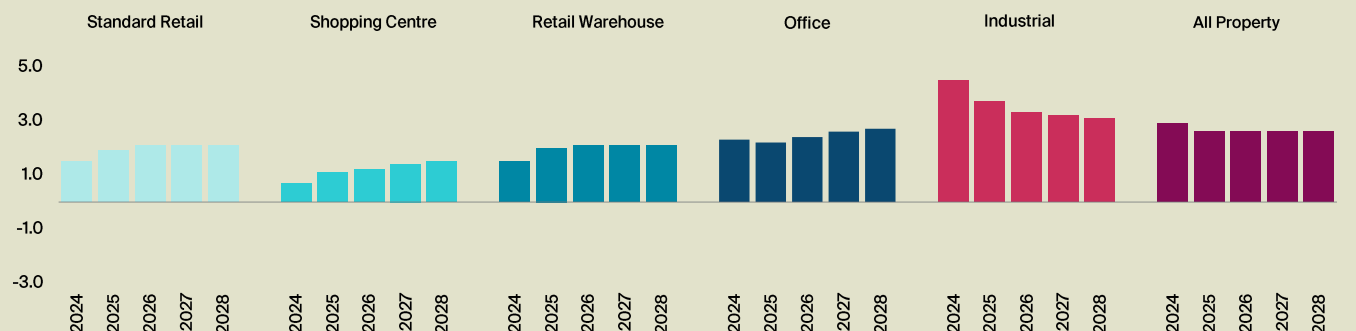
Source: Knight Frank Research, MSCI

IPF Consensus Capital Value Growth Forecast
%, August 2024 forecast



Source: Knight Frank Research, IPF

IPF Consensus Rental Value Growth Forecast
%, August 2024 forecast



Source: Knight Frank Research, IPF

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Offices

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

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



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City & Southbank offices

Market liquidity remains soft, as prime yields are unchanged

RETURN OF INSTITUTIONS

The City and Southbank saw £0.5bn of transactions in Q3 2024.

This represents a quarterly decline of 5.4% and is 71.0% below the long-term quarterly average of £1.8bn. The lack of larger lot size transactions remains a key factor underpinning the low volume total.

During Q3, investors from the UK were the most active, purchasing £0.3bn in office assets, which accounted for 48.9% of the total volumes transacted. The next largest group by nationality was Europe, which acquired £0.2bn, representing 35.0% of all transactions.

Institutional investors accounted for 48.9% of all transactions. This marks a notable shift compared with Q2, where private capital investors held the leading position.

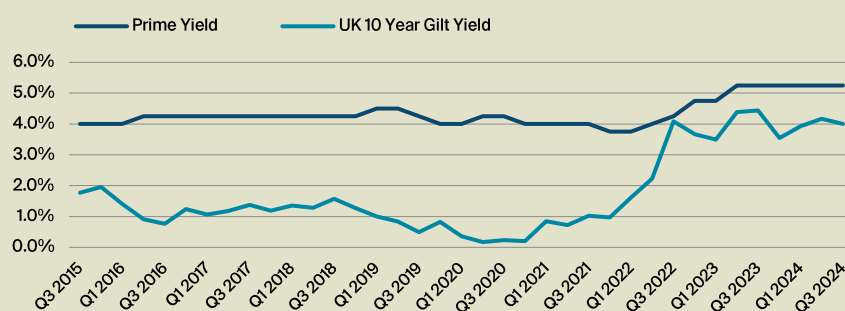
The largest deal of the quarter was at Atlantic House, 45-50 Holborn Viaduct, EC1A, which RLAM acquired for £185m - reflecting a net initial yield of 7.44%.

Assets under offer have decreased to £0.5bn, down slightly from £0.7bn at the end of Q2.

Just over £2.3bn worth of assets are currently available for sale in the City & Southbank, while prime yields have remained stable at 5.25% for the sixth consecutive quarter.

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

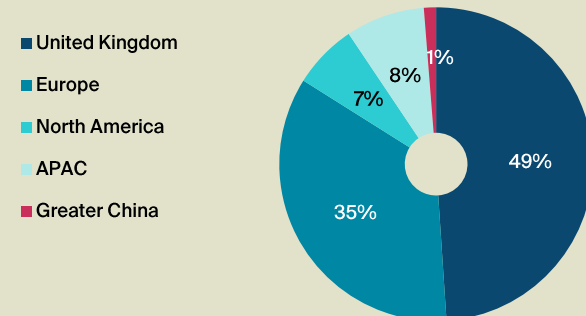
% per annum



Source: Knight Frank Research

City & Southbank: Investment volumes by nationality

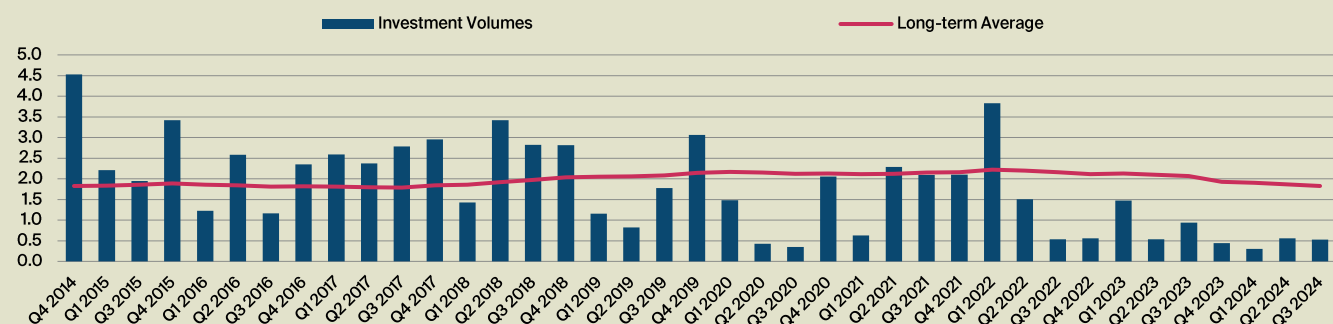
Q3 2024, % of total investment



Source: Knight Frank Research

City & Southbank: Investment volumes relative to trend

£billion



Source: Knight Frank Research

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City & Southbank offices

Second quarter of above trend take-up

GROWING LEASING MOMENTUM

The City & Southbank market experienced a second consecutive quarter of strong leasing performance, with take-up increasing by 7.9% to 1.8m sq ft, 13.7% above the long-term quarterly average. Take-up exceeded the long-term quarterly average in all submarkets except Southbank Core.

This increase in take-up has been driven by a rise in the number of deals — from 132 in the previous quarter to 187 — marking a 41.7% increase compared with Q2, and the highest deal count since the end of 2015.

The demand for better-quality space remains a central feature of the market. New and refurbished take-up accounted for 1.2m sq ft in the last quarter, representing a 10.8% increase compared to Q2 and 65.1% of all lettings.

Over the past 12 months, take-up of new and refurbished space has reached 4.6m sq ft, which is 28.0% above the long-term average and reflects 65.7% of all transactions.

The largest transaction of the quarter was by Legal and General Investment Management, a pre-let of 186,648 sq ft at Woolgate, 25 Basinghall Street, EC2, signing a 15-year lease for 60% of the building. The deal achieved rents ranging from £80.00 to £89.50 per sq ft.

We expect positive momentum in lettings to be maintained, as floorspace under offer in the City & Southbank has increased to 2.2m sq ft, up 1.9% since the end of Q2. Similarly, active demand has risen by 27.8%, increasing from 4.4m sq ft in Q2 to 5.7m sq ft in Q3.

TRUE GRADE A AVAILABILITY CONTRACTS

Following increased letting activity during the quarter, availability has fallen by 5.8% to 12.4m sq ft, resulting in a vacancy rate of 8.9%—1.7 percentage points above the long-term quarterly average. True Grade A availability declined by 1.7% in Q3 and has decreased by 19.5% over the past 12 months. In the largest submarket in the City, the City Core, the Grade A squeeze is more acute, with a vacancy rate of only 0.5%.

The under-construction development pipeline decreased by 5.8% to 9.1m sq ft, following 1.5m sq ft of completions in Q3. The most notable completion during the quarter was 40 Leadenhall Street, EC3.

Currently, 31.8% of the under-construction pipeline is pre-let, with an additional 596,237 sq ft under offer.

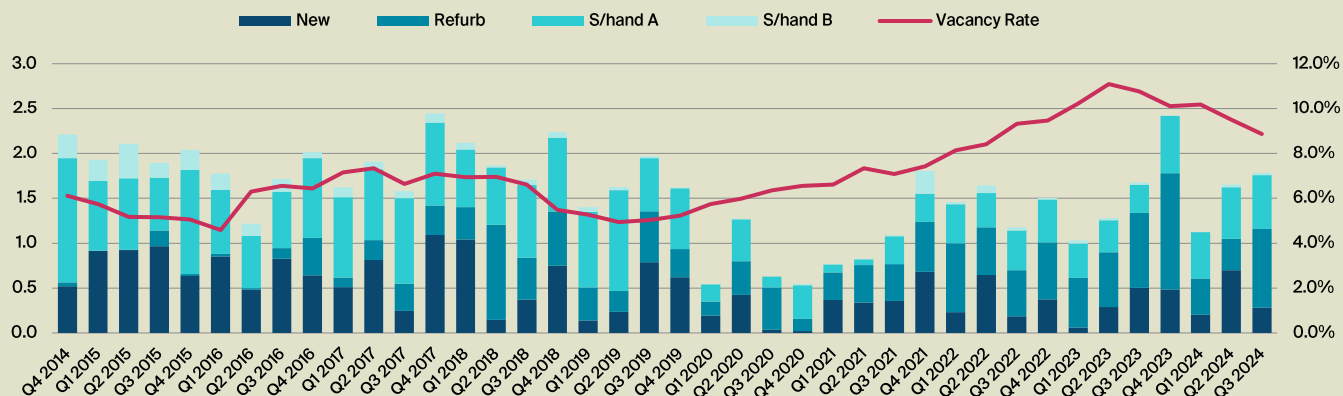
Based on historical take-up levels of new and refurbished space in the City & Southbank, the pipeline indicates an anticipated undersupply of 9.3 m sq ft by 2028.

PRIME RENTS RISE IN THREE SUBMARKETS

The increase in prime deals, which rose from three in Q2 to nine in Q3 2024, has led to higher rents across three submarkets. Prime rents increased by £2.50 in the City Core, reaching £90.00 per sq ft. Clerkenwell/Farringdon saw rents rise to £92.50 per sq ft, while Midtown experienced a £2.00 increase, bringing rents to £82.00 per sq ft. Rent-free periods remain unchanged for a standard ten-year lease at 24-27 months.

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

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



Source: Knight Frank Research

West End offices

Lower levels of investment turnover

INCREASING ACTIVITY IN CORE-PLUS

Turnover in the West End in Q3 was £0.8bn across 20 transactions, reflecting a quarterly fall of 20.4% and 40.7% below the long-term quarterly average.

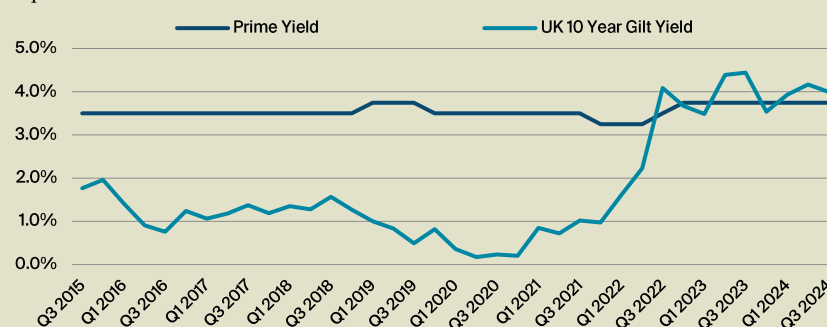
Investments have remained concentrated in value-added assets, which account for 41.4% of all transactions. Core-plus assets rose by 136.0% to £0.2bn, with their share growing from 7.5% to 22.2% of total investment.

During Q3, investors from the United Kingdom acquired £0.4bn of office assets, accounting for 47.7% of volumes. They were followed by investors from North America, who acquired £0.2bn and a 22.6% share of all transactions.

Private capital continued to dominate, accounting for £0.6bn in acquisitions and representing 77.4% of all transactions. The next largest group, private equity, comprised 13.7% of investment volumes.

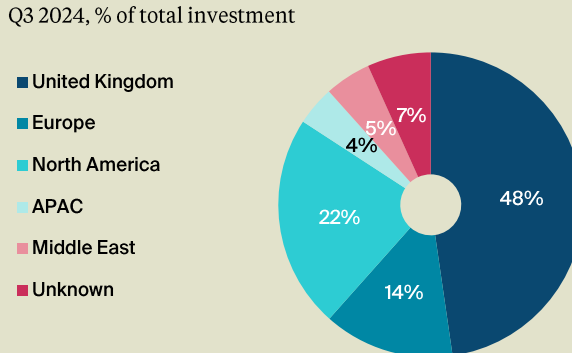
The value of assets under offer has risen to £0.8bn, up from £0.7bn at the end of Q2, while the volume of assets available for sale has decreased by 29.3% compared to the previous quarter. Pricing is supported by stable prime yields, which have remained at 3.75% for the eighth consecutive quarter.

West End: Prime Yield and UK 10 Year Gilt Yield
% per annum



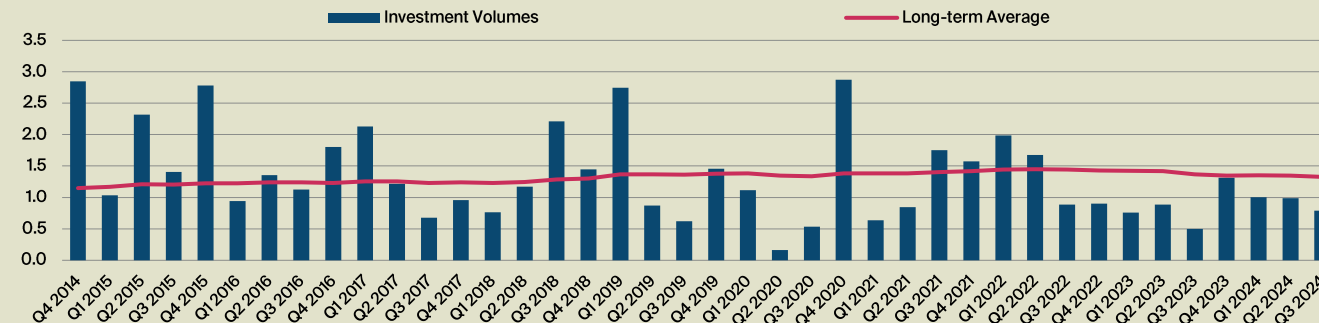
Source: Knight Frank Research

West End: Investment volumes by nationality
Q3 2024, % of total investment



Source: Knight Frank Research

West End: Investment volumes relative to trend
£billion



Source: Knight Frank Research

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West End offices

Leasing activity bounces back

ABOVE TREND TAKE-UP

After two consecutive quarters of below-trend take-up, leasing activity in the West End increased to 1.2m sq ft—up 78.1% compared to the previous quarter and 11.7% above the long-term quarterly average. Take-up exceeded the long-term quarterly average in five submarkets: Paddington (1.0%), Victoria (79.5%), Fitzrovia (83.1%), White City (159.6%), and Marylebone (212.8%).

Larger-size band lettings primarily drove this improvement. Four of the 153 lettings in Q3 were above 40,000 sq ft, and two were above 100,000 sq ft.

The bifurcation in leasing trends by quality remains evident in the West End, with the majority (60.2%) of take-up this quarter for new and refurbished space. This is well above the London average of 51.6%.

Financial services remained the largest occupier group, accounting for 27.6% of all transactions, some 50.6% above the long-term quarterly average. Following closely, the professional services sector represented 26.8% of take-up, with lettings to this occupier group 217.8% above trend. The professional services sector totalled 324,318 sq ft this quarter, a significant rise from 111,959 sq ft in Q2, reflecting an impressive 189.7% quarterly change.

This increase in leasing activity can be primarily attributed to a rise in lettings by accounting, architecture, and legal firms. Notably, lettings by accounting firms experienced an extraordinary increase of 1398.0% quarter-on-quarter, largely due to the pre-let by BDO at the M Building in Marylebone.

TIGHTENING AVAILABILITY OF BEST QUALITY SPACE

Office availability fell for a second consecutive quarter, by 3.6% to 7.4m sq ft. The resulting vacancy rate of 7.8% is 1.5% above the quarterly long-term average. The decrease in availability was driven by healthier take-up and several withdrawals, including 271,185 sq ft of second-hand space removed from the market for redevelopment. Available new and refurbished office space decreased by 1.3% to 5.2m sq ft. However, this figure masks a more significant 7.1% drop in new space availability, now at its lowest in two years. The vacancy rate for available new space stands at 1.3%, which drops to 0.3% in the West End Core.

DEVELOPMENT PIPELINE FALLS SHORT OF DEMAND

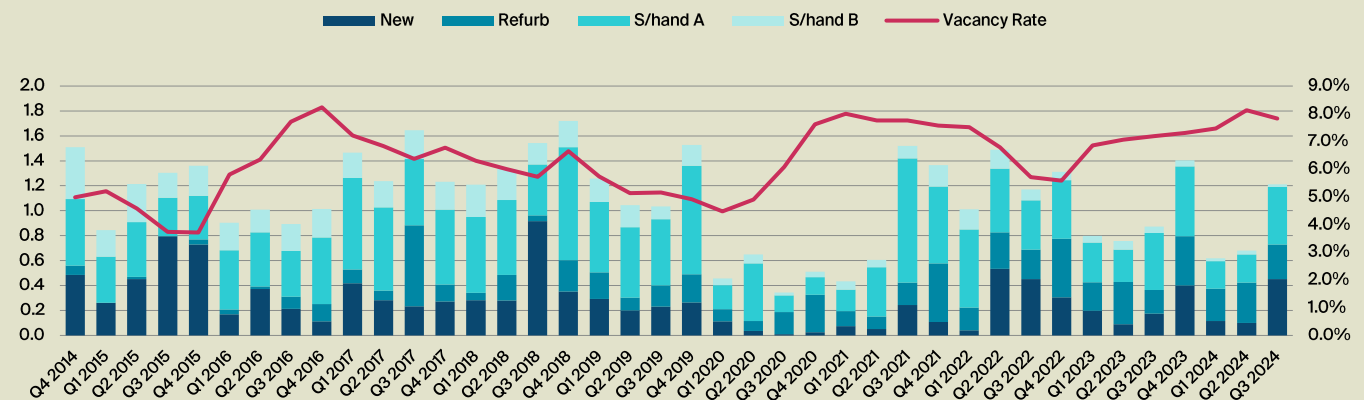
The under-construction development pipeline increased by 11.9% in Q3 to 6.7m sq ft – all completing by 2027. Just over 4m sq ft is being built speculatively, with the remaining 2.4m sq ft already pre-let. The current level of speculative development falls significantly below average levels of new and refurbished take-up, and we estimate an undersupply of the best-quality office space of 3.3m sq ft by 2028.

PRIME RENTS RISE IN TWO SUBMARKETS

We have raised prime rents in Strand/Covent Garden and Victoria in Q3. In the former, the headline rent increased from £87.50 to £90.00 per sq ft, and in the latter, it increased from £90.00 to £92.50 per sq ft. Rent-free periods remain unchanged at 24-27 months on a standard 10-year lease.

West End: Take-up by quality and vacancy rate

Million sq ft, % of stock (RHS)



Source: Knight Frank Research

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Docklands & Stratford offices

Lettings driven towards new and refurbished offices

FALL IN TAKE-UP DRIVEN BY LACK OF LARGER LETTINGS

During the quarter, five leasing transactions, totalling 16,396 sq ft, were recorded in Docklands and Stratford. This reflects a decline of 85.6% compared with Q2 and 91.5% below the long-term quarterly average of 193,478 sq ft.

A lack of larger lettings primarily drove the second consecutive drop in take-up. Most lettings (60.3%) were in the 0-5,000 sq ft range, with all lettings falling between 0-10,000 sq ft this quarter. As a result, the average deal size in Q3 fell by 97.1% to 3,274 sq ft.

Despite the lower deal flow, the quality of the floorspace being leased remains high, with 69.9% of take-up for new and refurbished offices. Over the last 12 months, the take-up of new and refurbished space has been 202,819 sq ft, reflecting 56.7% of all transactions.

The largest letting in Q3 was by the technology company Hexaware Technologies Limited, which leased 6,500 sq ft at 1 Canada Square, Canary Wharf, E14, at a rental rate of £58.80. The second largest deal was by the Institute for Arts in Therapy and Education, a 4,949 sq ft letting at Dane's Yard, 1 Sugar House Lane, E15, at £30.00 per sq ft.

The letting by Hexware Technologies Limited resulted in the technology, media, and telecoms sectors accounting for 39.7% of total transactions, establishing it as the largest occupier group. The second largest occupier group was the manufacturing and corporate sector, making up 21.9% of transactions.

TOTAL AVAILABILITY RISES

Available floor space has increased by 10.3% in Q3 to 3.8m sq ft, resulting in a vacancy rate of 14.8%, compared to the long-term average of 4.7%. The quality split is almost 50-50, with new and refurbished space accounting for 52.7% and second-hand space 47.3%. A significant portion of the available floor space is concentrated in larger size bands, with 57.2% allocated to spaces greater than 100,000 sq ft.

The under-construction development pipeline decreased by 32.8% to 718,338 sq ft following the completion of the Turing Building at Stratford Cross, E20, which delivered 339,430 sq ft of speculative space. The under-construction development pipeline consists of only speculative developments, with no pre-lets. The current level of speculative development falls significantly below average levels of new and refurbished take-up. We anticipate a 0.7m sq ft shortfall of best-in-class office space by the end of 2028.

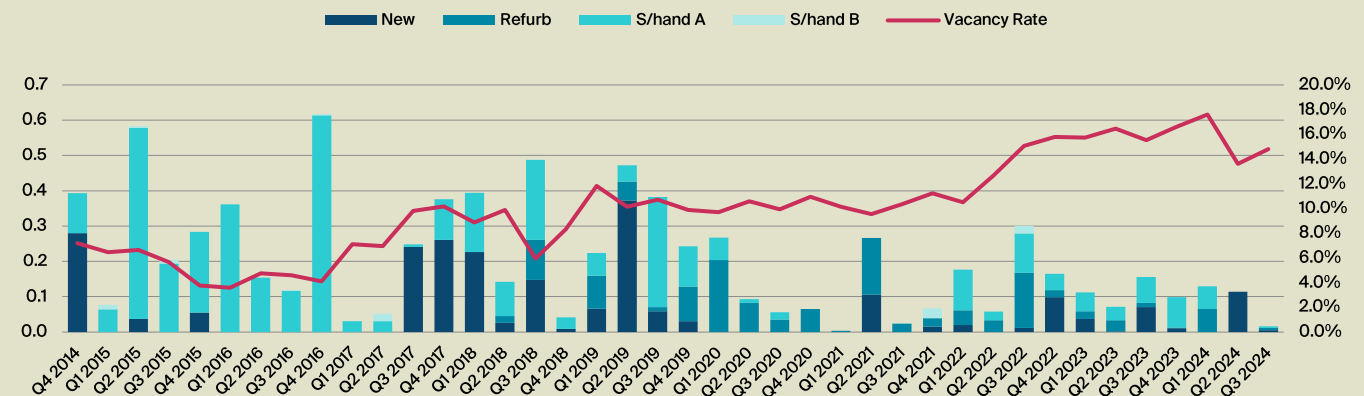
Prime rents are unchanged in both Docklands and Stratford markets - in Canary Wharf, £57.50 per sq ft, and in Stratford, £48.50 per sq ft. Rent-free periods remain unchanged at 27-30 months on a standard 10-year lease.

NO INVESTMENT ACTIVITY

There have been no transactions in Docklands & Stratford in Q3, and there are no deals under offer. The volume of assets available for sale has decreased by 14.4% compared to the previous quarter to £0.09bn, while prime yields have remained stable at 7.50%.

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

Million sq ft, % of stock (RHS)



Source: Knight Frank Research

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South East offices

With pricing for prime assets having stabilised, polarisation of the yield spread between prime and secondary assets continues, as obsolescence challenges the latter

INVESTMENT MARKET BEGINNING TO STABILISE?

Investment volumes for the South East in the third quarter of 2024 totalled £237m. Although the Q3 total is 70% above the same period in 2023, this remains 65% below the 10-year quarterly average.

Fundamentally, investors remain cautious, with the re-pricing of office assets in recent months and elevated cost of debt leading to a lack of motivated buyers and sellers. That said, the period of correction, at least for prime, has now stabilised, meaning market interest is beginning to renew, albeit debt rates remain a significant hurdle to any uptick.

PRIVATE MONEY IS THE MOST ACTIVE

Institutional money continues to be absent from the market, as offices remain largely out of favour. In Q3, Private Equity accounted for 38% of total investment volumes.

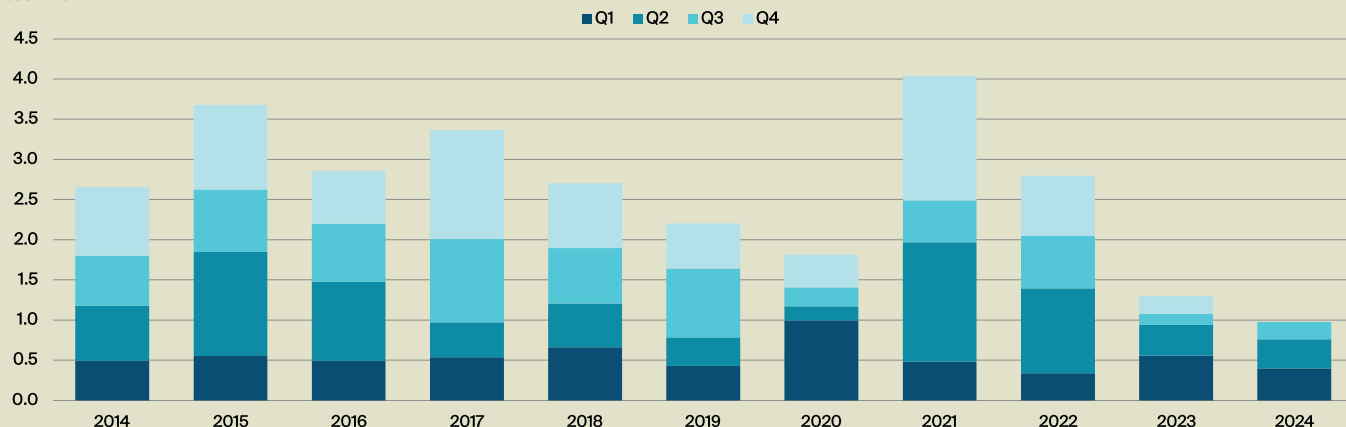
Over the year-to-date, however, property companies have been most active, accounting for 31% of the market, with this investor group increasingly drawing out potential value-add investments and opportunities to reposition or repurpose office assets to meet modern occupier demands.

IS THE PRICING SHIFT SUBSIDING?

Prime yields remained at 7.0% in Q3, with pricing at the top end of the market unchanged throughout 2024. The consensus is that prime has now 'reached the market level' with further outward shifts unlikely. However, the yield spread between prime and secondary properties continues to widen as obsolescence, location disadvantages, and sustainability upgrade requirements challenge secondary assets.

South East: Investment volumes

£billion



Source: Knight Frank Research

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South East offices

Leasing volumes reach their highest level since 2019, underpinned by larger requirements and increased pre-let activity owing to a lack of current and future supply

SUSTAINED MARKET ACTIVITY

The South East office market continued to record consistent activity in the third quarter, with leasing volumes reaching 866,000 sq ft, a total in line with the 10-year quarterly average. During the quarter, 79 occupier deals were completed, the highest number so far in 2024 and well above the long-term quarterly average of 63.

Notably, take-up in every quarter of 2024 so far has been above 800,000 sq ft. This is the first year since 2019 where activity in the first three quarters has consistently exceeded this threshold. Consequently, take-up for 2024 year-to-date has reached 2.69m sq ft. This total is 34% ahead of the equivalent period in 2023 and is the highest total at this stage of any year since 2019.

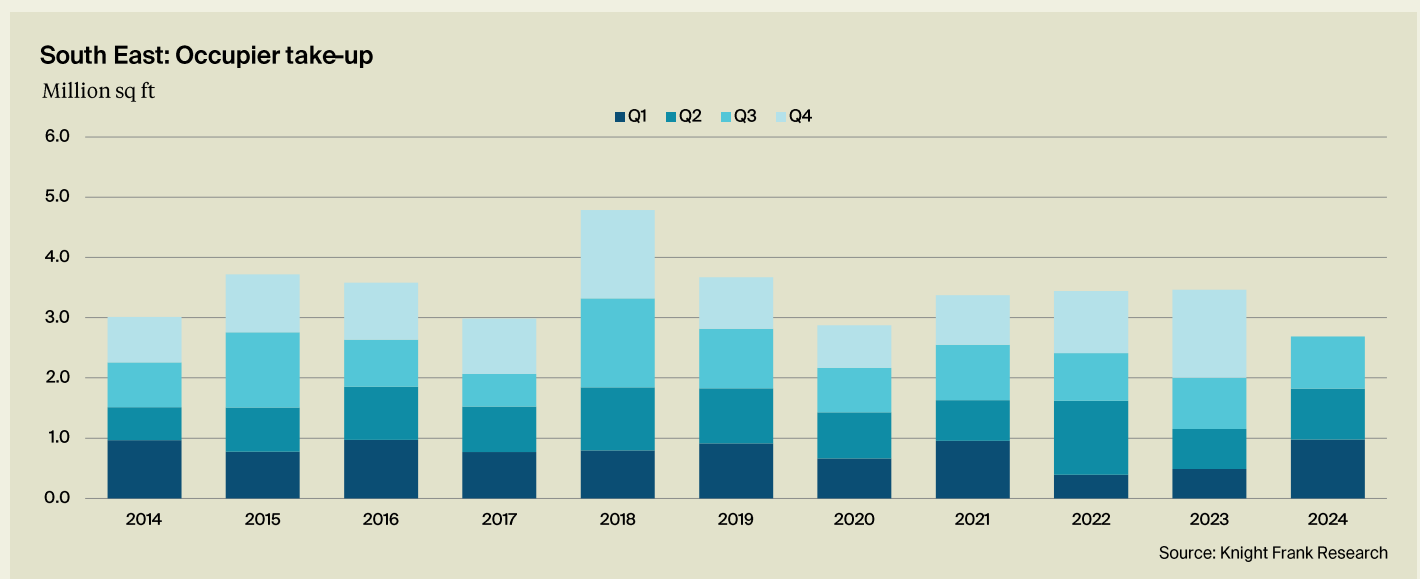
SECURING THE BEST SPACE MEANS EARLIER MARKET ENGAGEMENT

In 2024, nine deals of over 50,000 sq ft have concluded. This is the highest number of deals of this scale during a Q1-Q3 period since 2021. Of the nine deals, four were completed at buildings where construction work is ongoing, highlighting the appetite of businesses to act early to secure the best spaces. In fact, considering all size ranges, 16 deals were completed in 2024 where buildings were undergoing construction works, the most in a year since 2001.

BEST QUALITY SUPPLY FALLING

Vacancy again remained relatively unchanged over the quarter at 8.4%. Notably, the availability of New & Grade A space has fallen consistently throughout 2024 as completions have not kept pace with letting activity. At the end of the quarter, the vacancy rate for New and Grade A spaces dipped to 6.4%, meaning the gap between total vacancy and that of 'best quality' is now the widest for 24 months.

Looking forward, the development pipeline remains limited for those targeting new space. At the end of the quarter, 1.8m sq ft of speculative office space was under construction and due for delivery before the end of 2027. Further analysis indicates that West London accounts for 40% of this total, led by the development of Olympia Square. Cambridge accounts for 26%. Outside of these markets, the continued shortage of best-quality office space will mean that vacancy rates remain below the long-term trend, at least for the short term, thus creating isolated opportunities for development starts.



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UK Cities offices

Investment volumes remain below trend, although pricing has stabilised for the best quality assets

INVESTMENT ACTIVITY DIPS

Investment activity remained below trend in Q3, finalising at £182m across the regional office markets. This total is 3% below the previous quarter and 52% below the 5-year Q3 average. This brings the year-to-date level of office investment to £672m, 8% behind the respective stage in 2023 and 39% below the 5-year average.

Despite this, the number of deals completed remains largely in line with the first nine months of 2023, resulting in an average deal size of £12.5m.

PRICING OF PRIME HOLDING FIRM

Prime yields remained at 6.75% in the third quarter, with pricing for the best-quality assets stable throughout the year. Pricing for prime assets is now believed to have reached levels in line with buyer and seller expectations – with a low likelihood of further outward yield shifts.

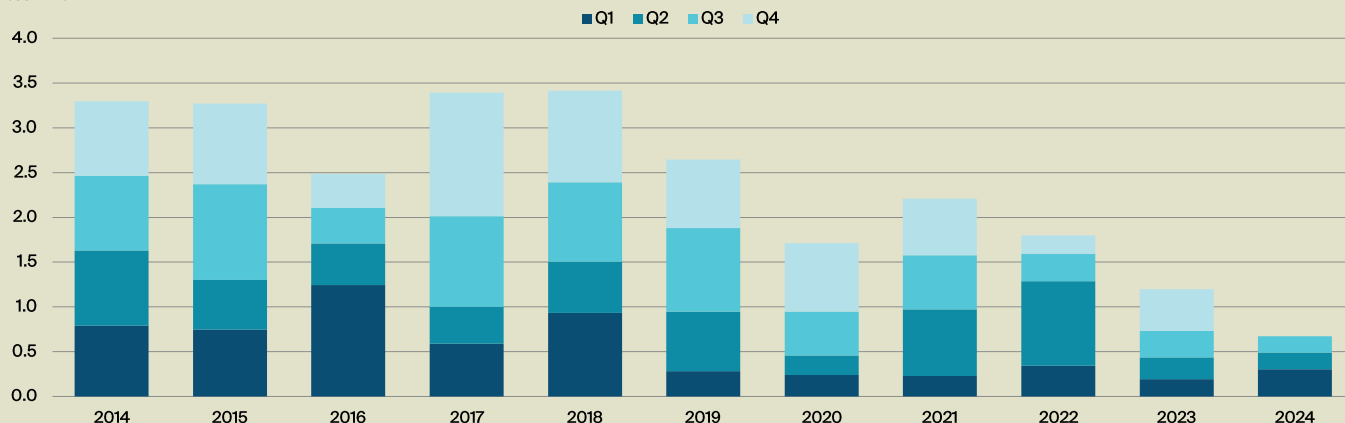
However, polarisation between prime and secondary continues to widen as investors add higher risk premiums to secondary pricing.

PROPERTY COMPANIES UNDERPIN INVESTMENT DEMAND

In Q3, property companies returned as the most active investor grouping, accounting for 73% of space leased and two-thirds of deals done. Year-to-date, the picture is similar, with this investor type accounting for 52% of space leased and 32 out of 54 deals completed. Property companies are continuing to seek out opportunities presented by heavily discounted assets to add value, and to refurbish, repurpose or redevelop assets at risk of regulatory, functional, physical, or financial obsolescence, to bring them up to the market standard.

UK Cities: Investment volumes

£billion



Source: Knight Frank Research

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UK Cities offices

The leasing market continues to gather momentum, supported by an uptick in education sector activity – competition for best quality supply has supported sustained rental growth

OCCUPIER ACTIVITY CONTINUES TO IMPROVE

The leasing market continued to show improvement in Q3, with occupier take-up reaching 1.6m sq ft across the regional cities tracked. This total is 24% above the level recorded the previous year and is 11% above the 10-year quarterly average. The year-to-date measure of take-up shows that nearly 4m sq ft of space has been leased. This is 14% ahead of the equivalent point in 2023 and is 12% above the 5-year average. Notably, this is the highest total recorded at this stage since 2019.

During the first three quarters of 2024, 787 occupier deals completed across the ten UK cities tracked. Although this reflects a 2% fall compared to the equivalent period in 2023, it is 9% above the 5-year average at this stage. The uptick in leasing volumes meant the average deal size increased by more than 700 sq ft year-on-year to 4,985 sq ft.

RENTS CONTINUE TO RISE

The average prime rent across the major UK regional cities stood at £38.00 per sq ft at the close of the third quarter, with the highest prime rent in Bristol at £48.00 per sq ft. Considered across the year-to-date, eight of ten markets have registered an uplift in prime rent, with the highest annual percentage increase (13%) recorded in Bristol and Sheffield. Further increases are possible in Q4 as competition for prime space remains heightened.

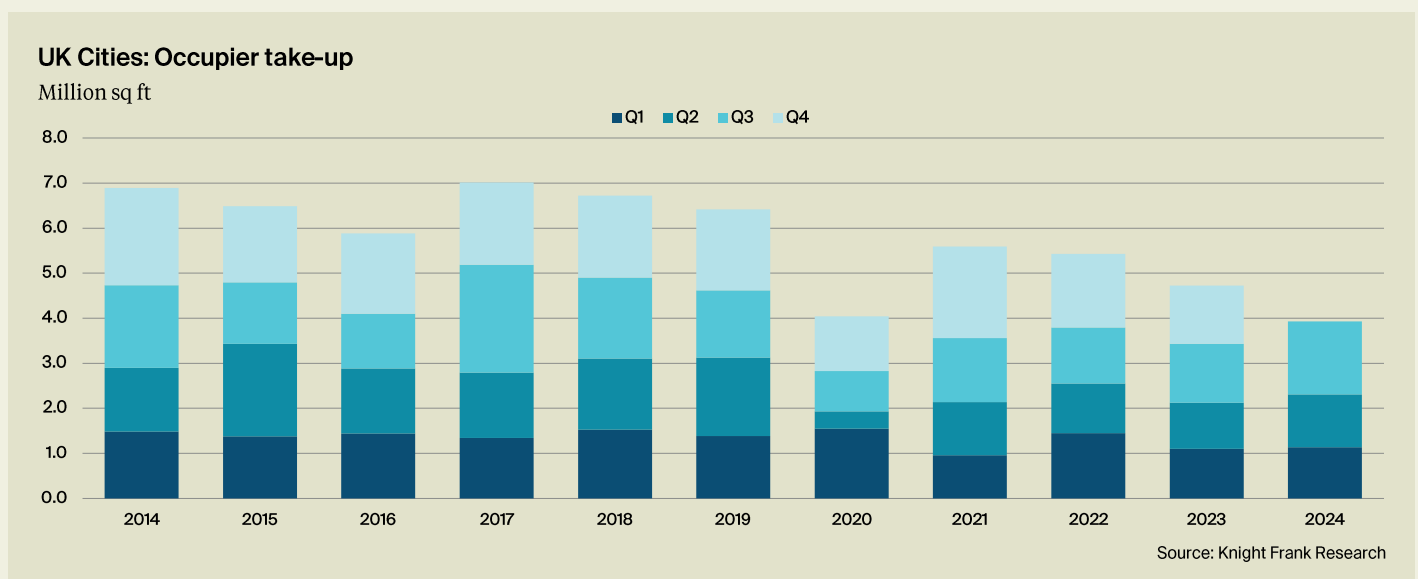
DEMAND FROM EDUCATION PROVIDERS SURGES.

Education is becoming increasingly intertwined with businesses to foster innovation. During the first three quarters of 2024, the education sector accounted for 12% of office space leased across the UK cities, up from 7% at the equivalent point in 2023. Notably, it was the most active occupier grouping in Q3, accounting for 23% of total take-up.

Underpinning the uptick in activity was the 189,053 sq ft letting to Aston University at 10 Woodcock Street, Birmingham and the Global Banking School taking 68,192 sq ft at 1 Brindley Place, also Birmingham. Interestingly, the three largest transactions involving the education sector occurred in Birmingham. However, year-to-date, nine out of the ten regional cities recorded take-up derived from education-based occupiers.

SUPPLY POLARISING

The regional average vacancy rate registered a small decrease in Q3 to 13.9%. The availability of New & Grade A space also fell over the quarter as completions have not kept pace with letting activity. At the end of the quarter, the vacancy rate for New and Grade A spaces dipped to 2.9%, demonstrating the gap between total vacancy and that of 'best quality'. Moving forward, the development pipeline remains limited for occupiers targeting new space. At the end of the quarter, 3.4m sq ft of office space was under construction and due for delivery over the next 24 months. Of this, almost one-third has already been leased.



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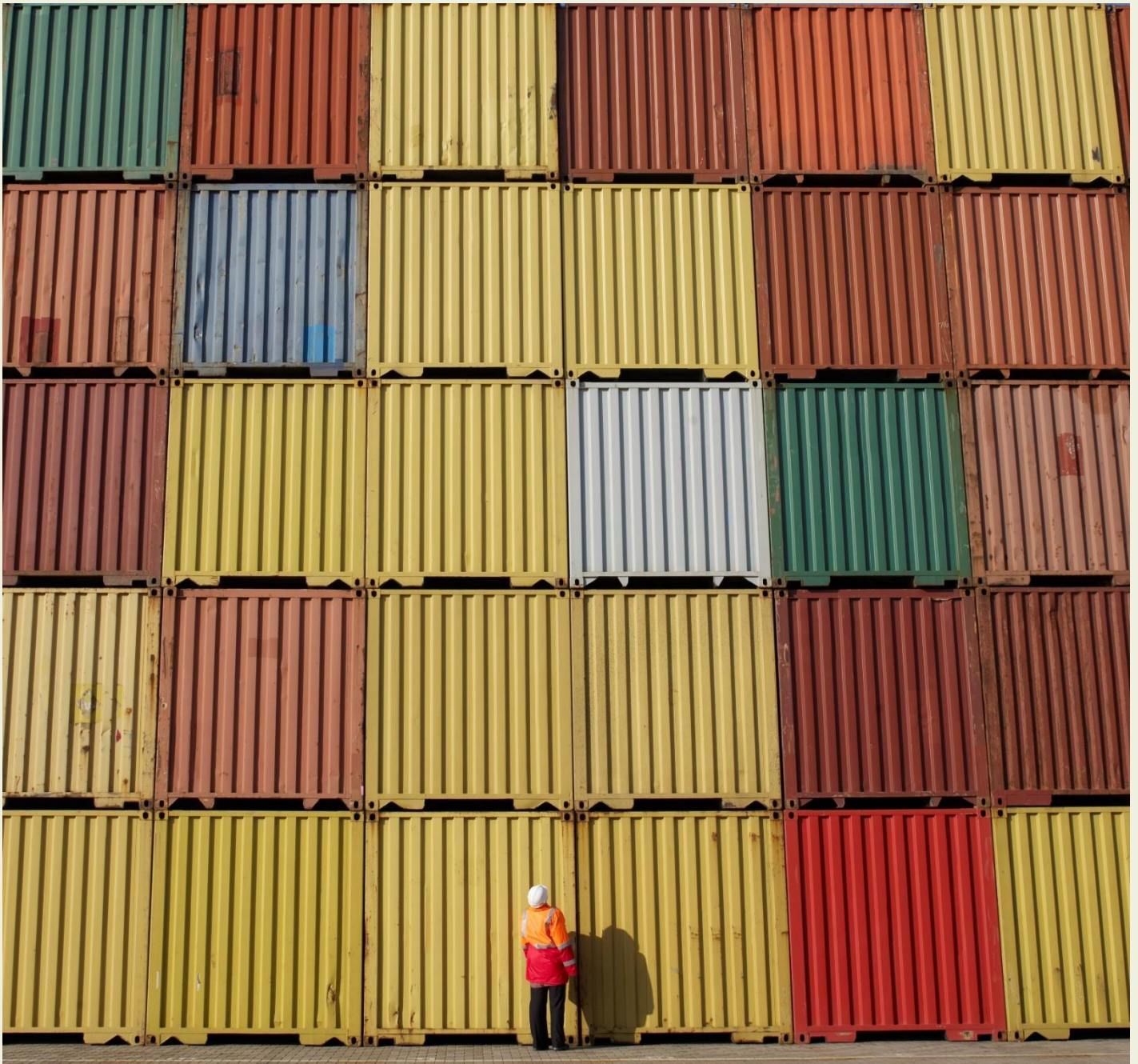
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Industrial & distribution

Investment and occupational markets

CONTACT: [CLAIRE WILLIAMS](#) & [DEIRDRE O'REILLY](#)



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Industrial & distribution

Buyer pool expands as interest rate cuts provide reason for optimism

MOMENTUM IN INVESTMENT ACTIVITY

A total of £2.5 billion was invested in the UK industrial market in Q3 2024, 2.8% ahead of Q2 and representing a 20% improvement on Q3 2023. The total for the year-to-date (YTD) now stands at £6.8 billion, 9.4% behind the £7.5 billion recorded in the first three quarters of last year. With activity expected to pick up in the final quarter, the full-year total is anticipated to reach or even exceed last year's volumes. YTD investment is also just 4.9% behind the 10-year pre-pandemic annual average of £7.1 billion.

REITs and Listed Property Companies have been notably more acquisitive so far this year, accounting for 16% of YTD 2024 investment. This compares to 6%/5% in 2022/2023. While the buyer profile is still dominated by cross-border capital, its share of the market has declined to 49%, from 56% last year.

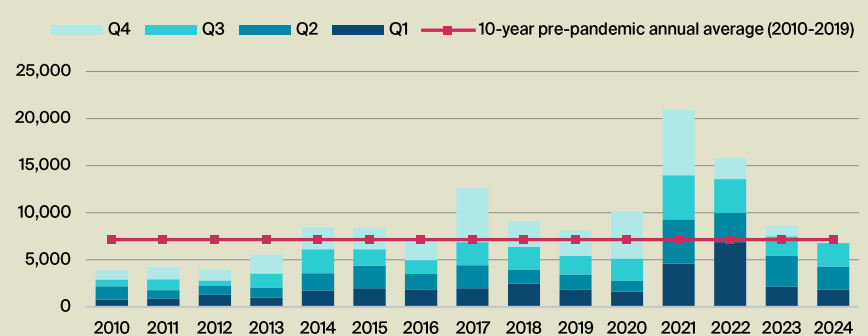
DECELERATION IN REPRICING

The pace of repricing continues to decelerate. The MSCI UK industrial equivalent yield was 6.3% in September 2024. This represents a 22bps outward annual yield shift from September 2023, though it is significantly lower than the 146bps recorded one year ago. Prime distribution/warehousing yields with 15-year income on open market rent reviews remained stable in Q3 2024, at 5.50%, 125 bps softer than two years ago.

BUYER POOL IS EXPANDING

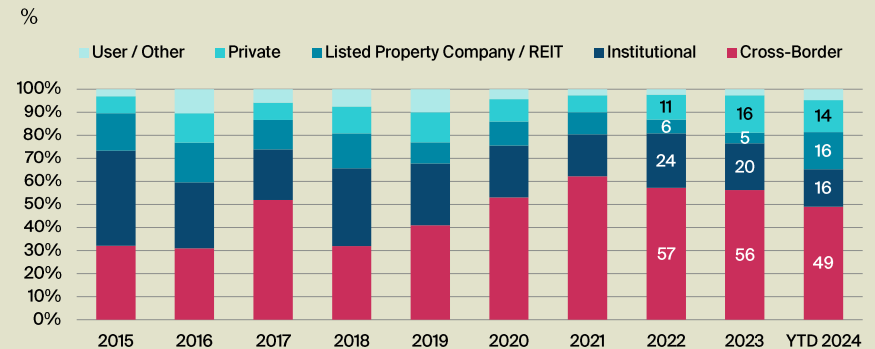
With the Bank of England's first interest rate cut implemented and at least one additional cut anticipated before year-end, investors have reason for optimism. Some caution remains, particularly surrounding the impact of the Autumn Budget on gilt yields. However, the depth of the buyer pool is expanding, not just for prime properties but also for secondary and value-add opportunities. Investors are facing intense competition for assets that offer reversionary potential.

Investment volumes
£million



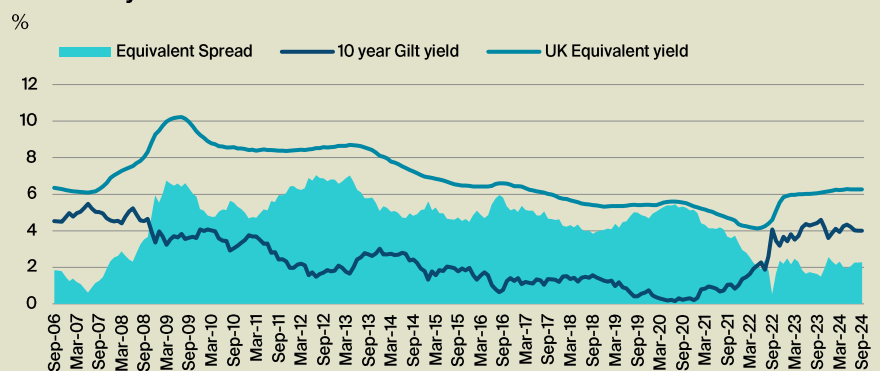
Source: Knight Frank Research, RCA

Capital composition
%



Source: Knight Frank Research, RCA

Industrial yields
%



Source: Knight Frank Research, Macrobond, MSCI

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Industrial & distribution

Occupier market statistics point to signs of stabilisation, but supply-side challenges remain

STABILISATION IN OCCUPIER MARKET

The Q3 2024 statistics point to further signs of stabilisation in the occupier market. Across the UK, occupiers signed 9.4 million sq ft of industrial and logistics floorspace in Q3 (units over 50,000 sq ft). While this figure is marginally below Q2 take-up, it exceeds the average quarterly totals recorded over the past two years and brings year-to-date (YTD) take up to 26.7 million sq ft. The YTD total is now just 10% below the annual total for 2023 of just under 30 million sq ft. Based on the volume of floorspace under offer, 2024 take-up is expected to exceed last year's figure. With the economic outlook improving and inflationary pressures starting to ease, this may lead to further improved take up in the coming quarters.

VACANCY RATE DRIVEN BY SECOND-HAND STOCK

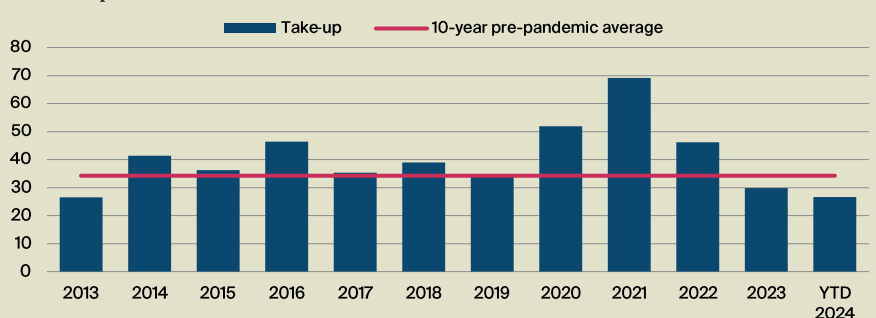
The vacancy rate rose from 6.9% at the end of Q2 to 7.2% in Q3. Much of the space currently available is within second-hand units, and 27% of all second-hand space comprises good-quality, modern Grade A stock.

CERTAIN UNIT SIZES IN SOME LOCATIONS IN SHORT SUPPLY

Despite the overall rise in availability, certain unit sizes and new builds in some locations remain in short supply. Challenges in the development market continue to impact the delivery of new stock, and the short-term development pipeline is particularly constrained in some regional markets. This means that take-up and supply in these markets are centred around older units and will remain so, at least for the short term.

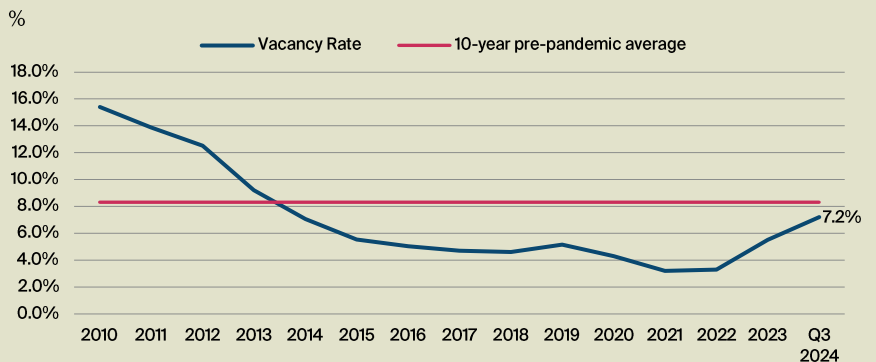
Monthly average rental growth accelerated in September to 0.72%, the highest month-on-month growth recorded so far in 2024. However, annual rental value growth continues to slow, with +6.2% growth recorded in the year to September 2024. This is down from +6.3% in June 2024 and +7.1% in September 2023 (MSCI).

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



Source: Knight Frank Research

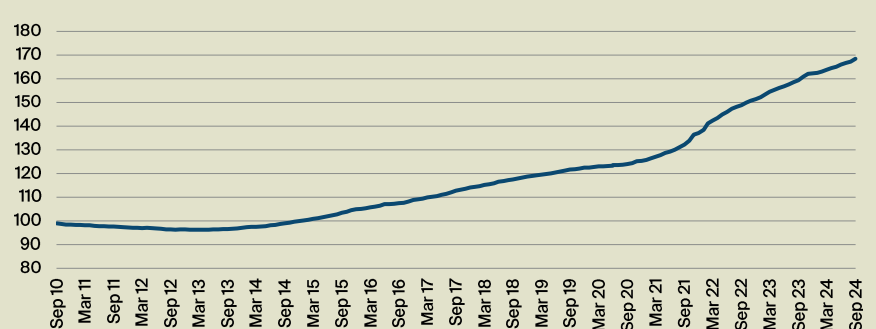
Vacancy rate



Source: Knight Frank Research

Average market rental growth

Jan 2010 = 100



Source: Knight Frank Research, MSCI

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Retail & leisure

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

CONTACT: [EMMA BARNSTABLE](#)



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Retail

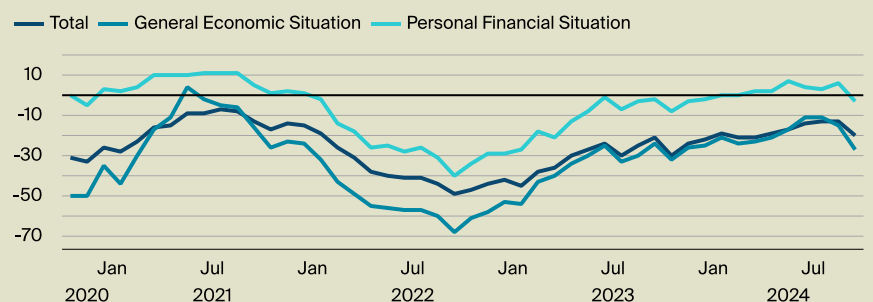
Deal volumes rise as investor sentiment warms, amid strongest occupational dynamics in years

UK CONSUMERS FEEL FRAGILE

Inflation pressures receded and spending power grew, but markets remained fragile. Personal finance confidence dipped back to negative territory (-3pts Sep) amid concerns over Labour's October budget. Shoppers were effectively coaxed into spending with discounts and offers. On the surface, Q3 retail sales looked strong (values +2.8%) after a weak Q2 (+0.1%). Sales volumes (+2.6%) returned to positive territory for the first time since 2022, indicating consumers were both buying and spending more. But deflation emerged in August, as retailers sacrificed gross margin to shift unsold seasonal stock.

Consumer confidence

Confidence over the next 12 months



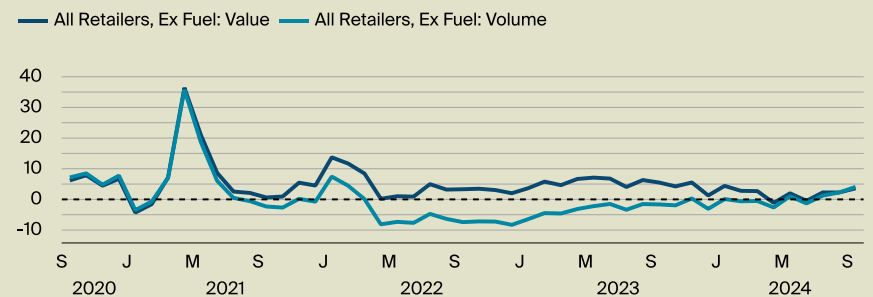
Source: GfK

RECORD LOW OCCUPIER DISTRESS

The market is in one of the strongest positions it has been for some time: on track for the fourth lowest year of occupier distress on record. 760 stores have been affected year-to-date, well below the 2,462 annual average from 2019 - 2023. Vacancy rates were stable at 14.0% for a fifth consecutive quarter, and the balance of closures vs. openings held near-stable for a third consecutive year (net store closures H1 2024: -2,284 vs. 2020: -6,001). Retail rents are now forecast to grow +1.3% overall in 2024 after years of rebasing, with sub-sector expectations universally positive (RWH +1.9% / High St +1.6% / SC +1.2%).

ONS retail sales

Monthly year-on-year change, %



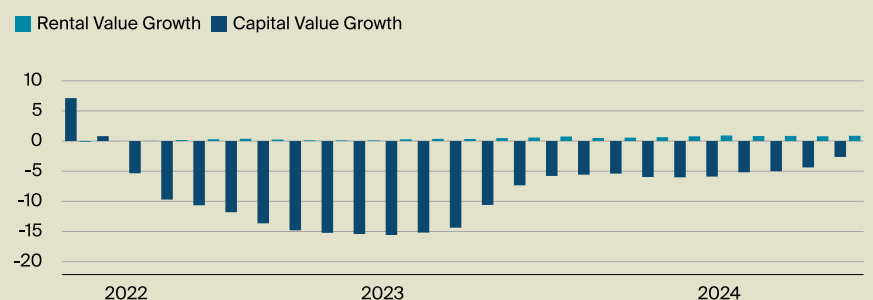
Source: ONS

INVESTMENT REVIVAL

Deal volumes totalled £1.6bn across Q3 – the strongest quarter of 2024 so far. All sub-sectors saw an uptick, with Shopping Centres leading the way, making up 36% of deal volumes. Retail Warehousing (32%) and Foodstores (26%) made up the remainder. Just 6% of retail deals happened on the High Street. Investment sentiment toward the sector continues to warm with annual total returns (8.2%) forecast to register stronger than Industrial (7.4%) and All Property (5.1%). Total return performance driven by Retail Warehousing (12.4%) (the only commercial sub-sector forecast to achieve double-digit returns) and Shopping Centres (7.7%).

All retail – rental/capital value growth

Rolling 12 month % change



Source: MSCI

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High street retail

Occupiers renew commitment to high street bricks and mortar as distress levels hit historic lows

BACK TO SCHOOL DRIVES FOOTFALL

Footfall was subdued across the quarter (July -2.7%, August -0.3%), as most consumers were away on summer holidays. Shoppers were largely enticed to high streets through discounting events, with some categories, such as Footwear, showing deflation (Q3 volumes at +1.8% outpacing values at +1.5%). However, September brought a welcome increase in visits (+0.9%) driven by back-to-school shopping, marking the first positive footfall growth in over a year. Major UK city centres saw the largest increases, with Leeds (+6.9%), Bristol (+5.0%), and Cardiff (+3.9%) benefiting as prominent retail and leisure destinations.

OCCUPIERS PLEDGE ALLEGIANCE

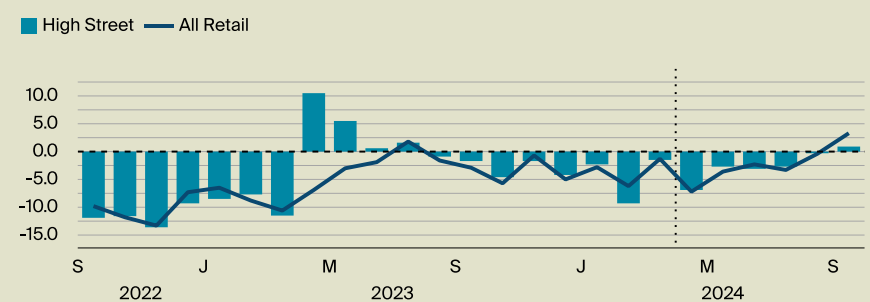
High-profile cases drew media attention (Ted Baker), but occupier distress remains at record-low levels, with vacancy rates steady at 14.0% for a fifth consecutive quarter. Positive occupier activity prevailed despite consumer market challenges, with retailers re-pledging their allegiance to high street locations. M&S reaffirmed its commitment after facing criticism for prioritising retail parks, announcing new stores in Bath and Bristol. Sosandar introduced its first physical locations in Marlow and Chelmsford, and Mountain Warehouse plans to expand by 50 sites, calling the 'death of the high street' narrative 'overdone.' Rents are now projected to grow by a healthy +1.6% in 2024.

LACK OF STOCK SUBDUES DEALS

Only 6% of total retail investment in Q3 went into high street assets. Lot sizes remain small (£3.7m) due to a shortage of large prime blocks on the market to meet investor demand. Just two deals exceeded £10m, the largest being Corum's £23m acquisition of Birmingham's Exchange Buildings from Orchard St IM. While annual total return forecasts (3.7%) may trail the broader retail sector (8.2%), they are expected to outperform other commercial segments, such as offices (-0.3%).

High street footfall

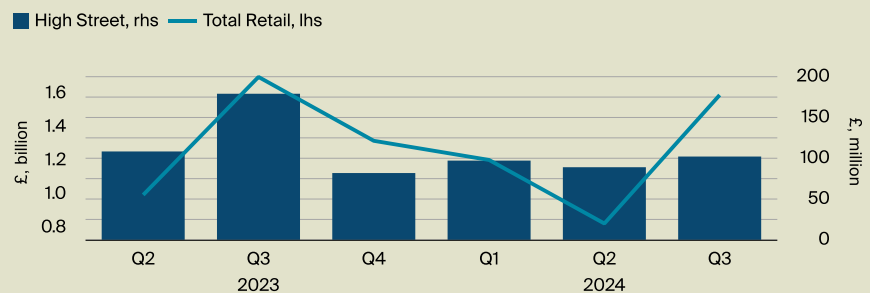
Monthly year-on-year change, %, vs. 2019 levels



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

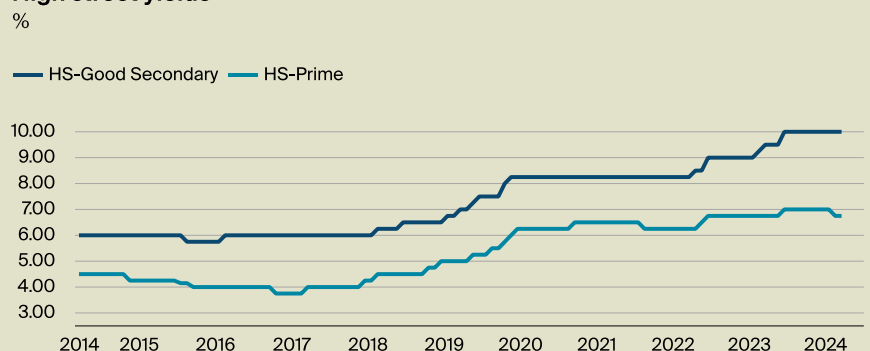
Source: BRC / Springboard

High street investment volumes



Source: Knight Frank

High street yields



Source: Knight Frank

Shopping centres

The sector is on track for a major turning point, with solid rental growth of +1.2% expected in 2024—the first positive growth since 2017

SPENDING LESS BUT BUYING MORE?

Retail sales strengthened in Q3 (+2.8%) with Non-Food (+3.7%) substantially stronger than Food (+1.0%). However, demand was largely stimulated through incentivising consumers to spend via discounts and promotions. Non-Food volumes (+4.2%) exceeded value growth (+3.7%), indicating that consumers bought more items but paid less, resulting in an implied deflation rate of -0.5%. Deflation was mainly concentrated in the out-of-town markets (Electricals -16.2%), while shopping centre stalwarts Clothing (+1.2%) and Cosmetics (+1.8%) experienced healthy inflation and sales growth.

ON TRACK FOR RENTAL GROWTH

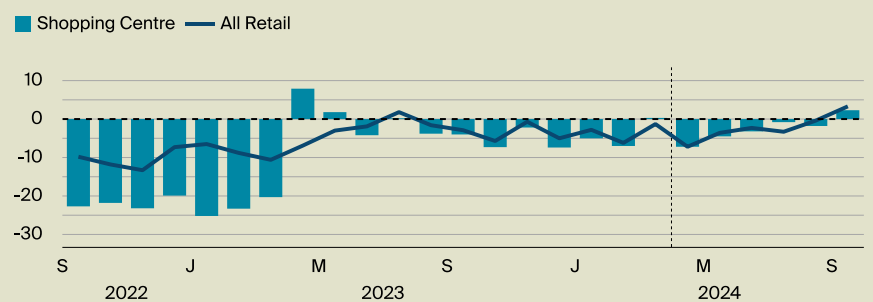
Vacancy rates edged up +10bps to 17.7% - though the rate has stubbornly fluctuated between 17.4% and 17.8% over the past year. Significant progress is evident in reducing 'problematic' units; vacancies of 2-3 years have nearly halved to 1.8% (from 3.3% in Q2 2023). The sector is forecast to return to solid rental growth in 2024 (+1.2%), marking a turnaround from 2023's -0.4%. The last positive rental growth was recorded by MSCI in 2017, at a modest +0.7%.

DEAL VOLUMES GROW

Q3 saw momentum build as deal volumes accelerated. Investors are increasingly drawn to the sector's strong operational performance, with a focus on income returns. Several large prime deals closed, with an average lot size of £71.4m (up from £38m in Q2). Highlights included British Land's sale of its 50% stake in Meadowhall (c. £360m / 8.00%) to Norges and M&G's acquisition of a 50% stake in The Mall, Cribbs Causeway (£110m / 8.25%) from Intu's creditors, aligning with its income return strategy. Total return forecasts for 2024 (7.7%) now position Shopping Centres as the second-best performer after Retail Warehousing, significantly outperforming All Property (5.1%).

Shopping centre footfall

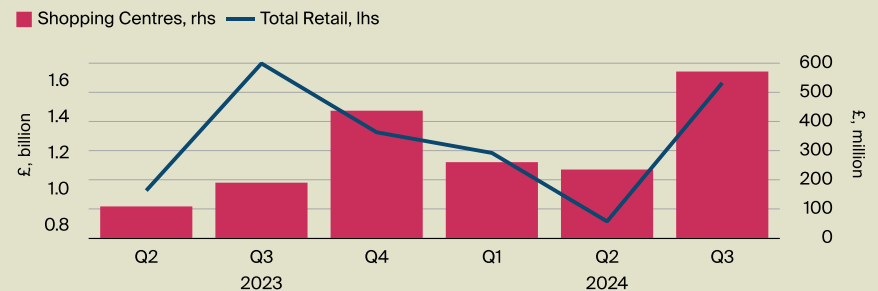
Monthly year-on-year change, %, vs. 2019 levels



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

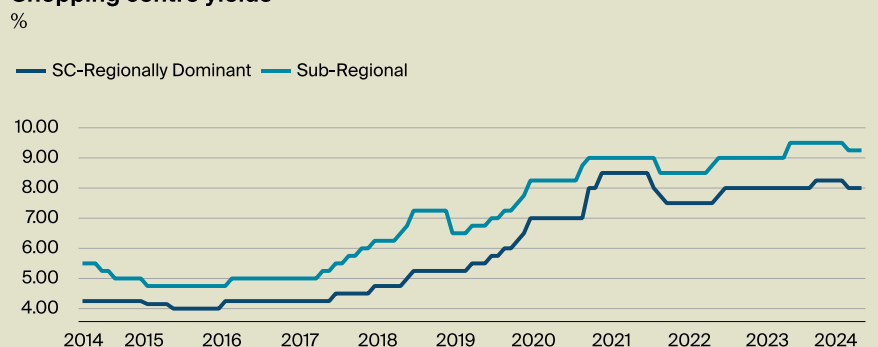
Source: BRC / Springboard

Shopping centre investment volumes



Source: Knight Frank

Shopping centre yields



Source: Knight Frank

Out-of-town

The most sought-after commercial real estate sector, delivering unrivalled double-digit annual returns

DEALS & DISCOUNTS DRIVE DEMAND

Non-Food (+3.7%) and Food (+1.0%) sales values strengthened in Q3 after a weak Q2 (-1.5% / -0.2%). However, demand in Non-Food categories was largely driven by discounting, as consumer sentiment toward major purchases was subdued, deteriorating by -10bps between August and September. Deflation was particularly strong in Electricals (-16.2%) and evident across Pets & Garden Centres (-2.5%), Carpets (-2.0%), Household Goods (-1.6%), DIY (-1.5%) and Furniture (-0.6%).

SPACE RACE DRIVES VACANCY DOWN

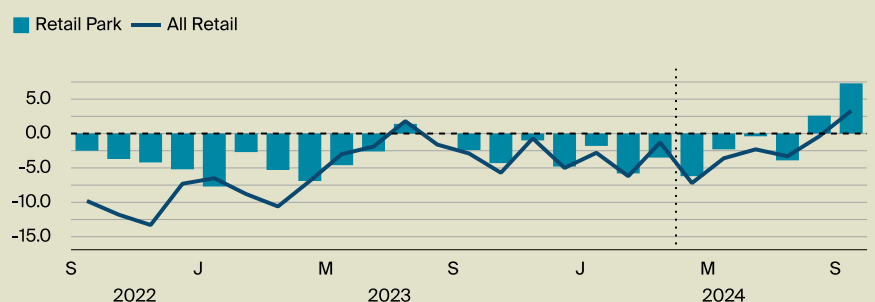
Competition for space continued to be intense, with unit vacancy rates declining by -30bps to 6.8%, marking the 15th consecutive quarter of improvement – highlighting ongoing momentum in take-up. Only 2.9% of units are considered ‘problematic’ - vacant for more than three years - compared to higher levels in Shopping Centres (7.6%) / High Streets (5.5%). Annual rental growth in 2024 is now expected to be the strongest of the retail sub-sectors (+1.9%) above Retail (+1.3%) but below All Property (+3.6%), marking a steady recovery after years of rebasing across retail.

UNRIVALLED DOUBLE-DIGIT RETURNS

With more stock entering the market thanks to pricing improvements, demand has driven deal volumes to £549m this quarter, marking a modest increase over Q2. Heightened competition for assets has further compressed yields by -25bps to 5.50%. Key deals included CBRE IM's £57.6m acquisition of Leamington Shopping Park and Fraser Group's acquisition of Quedgeley Retail Park in Gloucester. Annual total returns are now forecast at an impressive 12.4% (up significantly from 2.1% in 2023), outperforming Industrial (7.4%) and All Property (5.1%). Strong income returns of 6.5% (vs. 5.0% for All Property) and capital growth of +5.5% (vs. +0.1% for All Property) are driving this performance.

Retail park footfall

Monthly year-on-year change, %, vs. 2019 levels

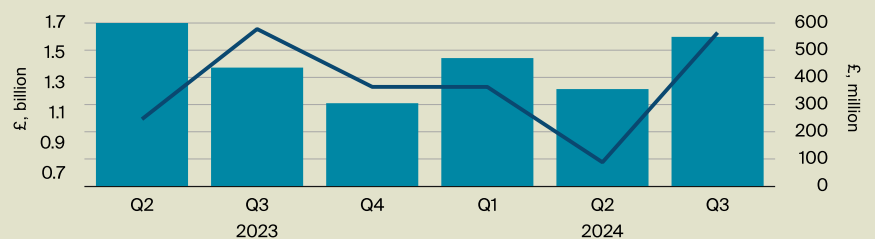


*March 2021 – March 2023 figures are compared to 2019 levels

Source: BRC / Springboard

Retail warehousing investment volumes

Retail Warehousing, rhs; Total Retail, lhs

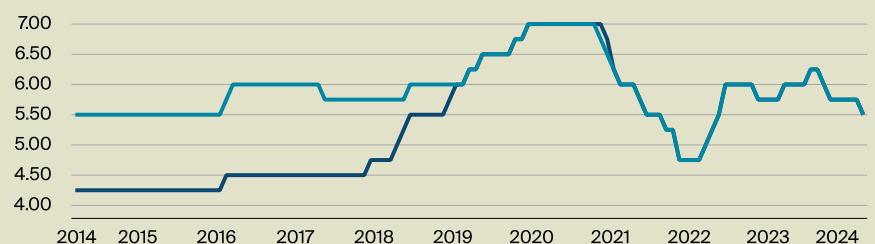


Source: Knight Frank

Retail warehouse yields

%

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



Source: Knight Frank

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Leisure

Stability welcomed as outlet numbers grow for the first time in two years

EXPERIENCES OVER POSSESSIONS

Consumers partially prioritised experiences over possessions in Q3, with strong spending evident across Hospitality & Leisure. According to Barclaycard data, spending grew steadily throughout the quarter: July (+1.8%), August (+3.8%), and September (+5.1%), significantly outpacing overall Retail spend, which showed more modest gains (-1.1%, +0.1%, and +1.1%, respectively). Bars, Pubs and Clubs experienced their highest growth in July (+4.9%), spurred by the Euros final. Meanwhile, cinemas saw remarkable growth of +18.2%, driven by successful blockbusters 'Beetlejuice Beetlejuice', 'Deadpool & Wolverine' and 'It Ends With Us'.

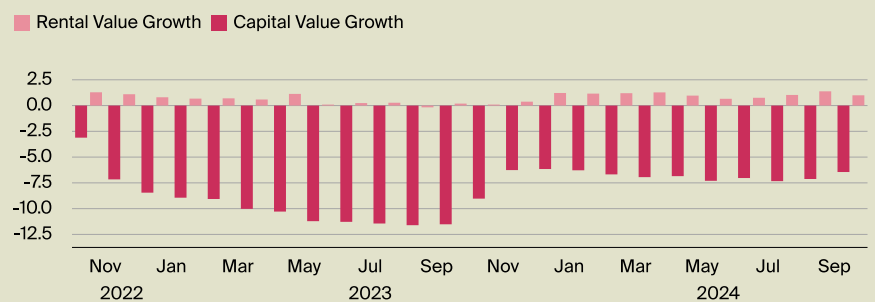
OUTLET NUMBERS RISE

Hospitality operators remained cautiously optimistic amid easing cost pressures and positive year-on-year sales growth in eight of the last nine months. Outlet numbers rose by +0.5%, marking the first quarterly increase in two years. Growth was relatively even across sub-sectors (Bars +2.5% / Large Venues +1.0% / Restaurants +0.7%), with significant gains in Themed Bars (+28.9%). Although promising, it is uncertain if this signals a lasting trend reversal, as outlet numbers remain 1.0% lower year-on-year and 13.8% below pre-COVID levels.

DEAL VOLUMES TICK OVER

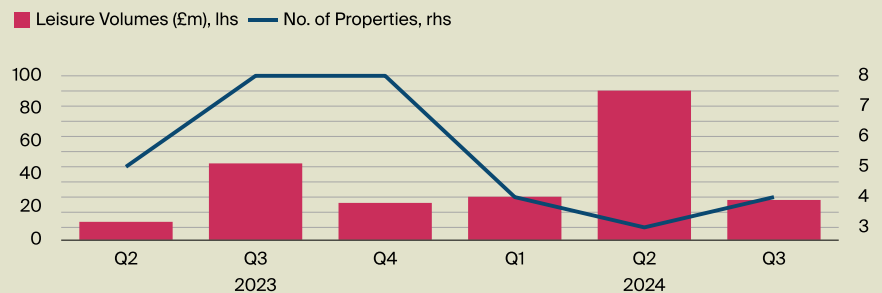
Deal volumes totalled £24.2m in Q3, bringing year-to-date transactions in 2024 to £141.3m, surpassing equivalent periods in 2023 (£90.1m) and 2022 (£91.5m). Key Q3 deals included an £11m disposal of an Odeon cinema in Camden (London) by Landsec and a £1.2m acquisition of a Gym Group unit at Southgate Retail Park (Derby) by Connect Derby Properties. Yields remained steady at 8.00%. Total returns are now projected at 5.3% in 2024, broadly aligning with All Property at 5.1%.

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



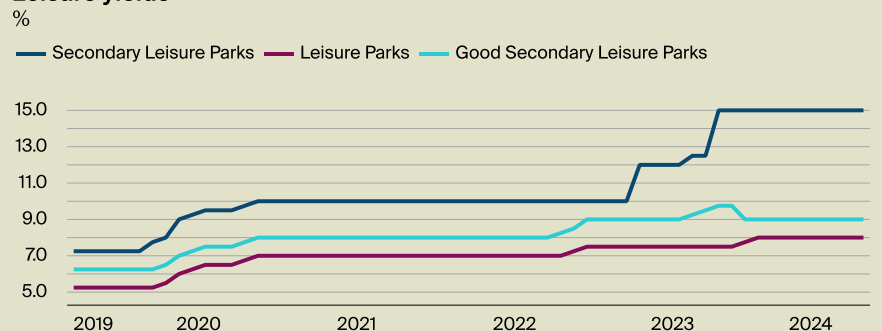
Source: MSCI

Leisure investment volumes



Source: RCA

Leisure yields



Source: Knight Frank

Foodstores

Off-market activity boosts investment volumes

FOOD SALES SOFT

Food sales posted modest growth at +1.0%, a slight recovery from Q2's decline (-0.2%) but still well below the 4-quarter average of +7.2%. Inflation continued to weigh on performance, with sales volumes down by -0.5% — though this was an improvement from the 4-quarter average decline of -2.3%. While moderating price inflation has offered some relief over the past year, intense competition among grocers has also helped lower weekly shopping costs. The share of sales on promotion increased year-on-year for the sixteenth consecutive month in August. BRC Shop Price Food Inflation stands at 2.3%, below the 12-month average of 4.4%.

OCCUPIERS RESILIENT

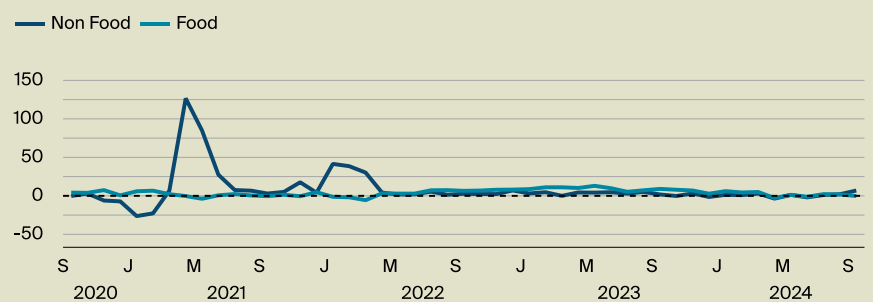
Despite a softer Q3 market, most major grocers reported volume-led sales growth. Morrisons and Tesco both reported like-for-like (Lfl) sales increases of +2.9%, with Tesco raising its full-year profit forecast to £2.9bn. Sainsbury's also achieved Lfl growth of +2.7% alongside 'record' market share gains. In contrast, Asda's Lfls declined by -5.3%, amid a period of 'embarrassing' market share decline. Meanwhile, Aldi and Lidl continued their aggressive expansion plans, with Aldi investing £800m in new stores (23 more by year-end) and Lidl set to open ten additional locations before Christmas.

OFF-MARKET DEALS DOMINATE

Foodstore investment reached £414m in Q3, an increase from Q2. Average lot size was £41.3 million, largely influenced by sizeable off-market activity. Notable deals included Lonestar's £560m acquisition of Charles Street Buildings' portfolio, of which 20% comprised retail/supermarket assets. Additionally, Aviva's sale of a Tesco Extra (St Helens) for £54m to a Middle Eastern investment group marked another key transaction. Annual forecasts predict a strong total return of 7.3% for the sector (vs 5.1% for All Property), supported by a robust income return of 6.4% (compared to All Property's 5.0%).

Food vs. non-food retail sales

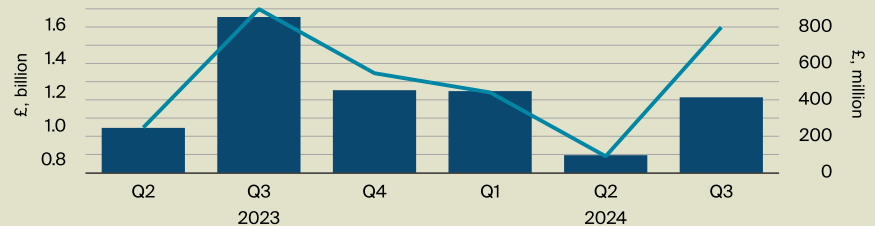
Monthly year-on-year change, %



Source: ONS,

Foodstore investment volumes

Foodstores, rhs Total Retail, lhs

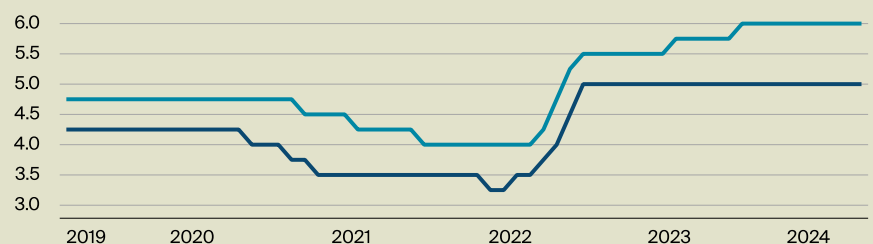


Source: Knight Frank

Foodstore yields

%

Annual RPI Increases Open Market Reviews



Source: Knight Frank

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Central London

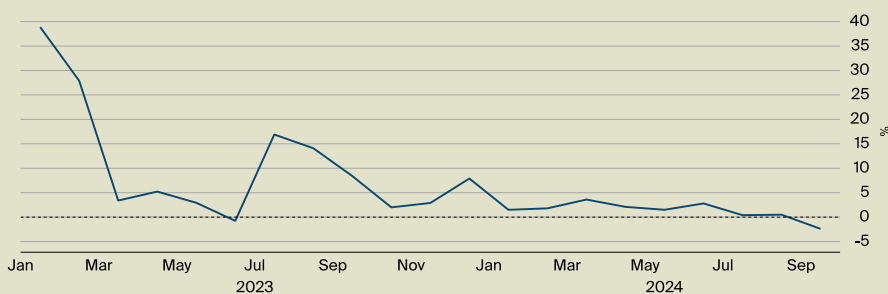
Rising shopper spending and increased international visits fuel enthusiasm for a wave of new retail and leisure openings

AVERAGE TRANSACTION VALUES RISE

Consumer spending in the West End showed year-on-year growth in July (+1.0%) and August (+1.5%), with a slight dip in September (-1.1%). Spending growth notably outpaced footfall growth (Jul +0.4%, Aug +0.5%, Sep -2.4%), indicating larger and more intentional purchases per visit, as average transaction values rose by +3.5% in September. International spending (Jul +4.8%, Aug +6.0%) was considerably stronger than domestic (-1.2%, -0.9%), though domestic spend still accounts for 67% of the total, illustrating the ongoing impact of the loss of tax-free shopping.

West End footfall

% change year-on-year



Source: New West End Company

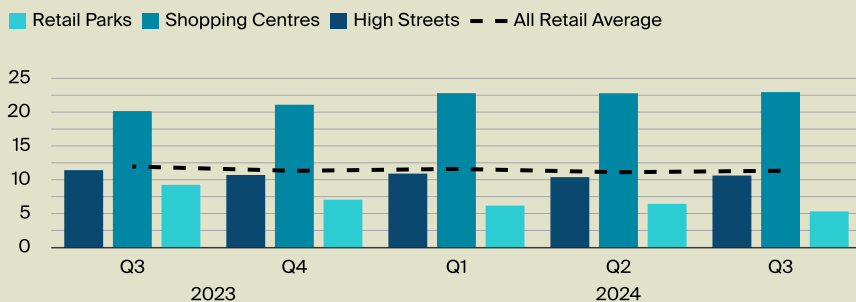
DEMAND VIBRANCY RETURNING

Occupationally, the market has largely regained its pre-pandemic vibrancy, with growing demand for retail space. Notable Q3 activity included Ben Sherman's return to Soho (97 Berwick St), Alo Yoga's expansion to 150 Regent St, and Astrid & Miyu's flagship ('HOAM') on Foubert's Place. House of CB also launched a permanent flagship at 225 Oxford St after a successful pop-up. Oxford St prime zone A rents rose for a third consecutive period to £675 p sq ft according to PMA, while other prime areas remained stable. Rental growth forecasts for Central London are set to moderate to +2.1% in 2024 (from +4.7% in 2023), still outpacing the wider UK at +1.3%, with the West End (+2.3%) expected to outperform the City/Mid-Town (+1.5%).

Vacancy rates*

% units

*Greater London



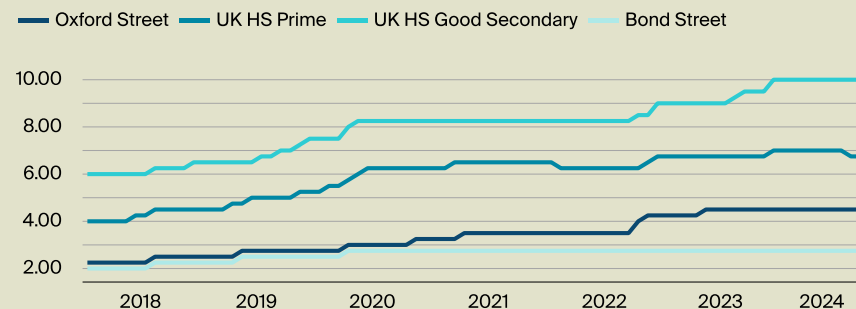
Source: Local Data Company

HEALTHY INVESTMENT ACTIVITY

Q3 was a relatively quiet quarter for investment (£88.5m) according to RCA, compared to £434m in Q2. Year-to-date volumes have reached £726m, surpassing the five-year average (£546m) for the same period. In Q3, JP Morgan completed a £71m acquisition of 291 Oxford Street / 2 Harewood Place, leased to McDonald's and EE, marking the largest single-asset sale on Oxford St in nearly three years. In addition, M&G provided a £285m loan to Trophaeum AM for a portfolio of prime retail assets, including a Gucci store at 144/146 New Bond St, as it expects to benefit from a 'strong rebound' in luxury.

Yields

%



Source: Knight Frank

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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

OVER £1 BILLION INVESTED IN THE UK DATA CENTRE SECTOR SO FAR IN 2024

The UK data centre market saw a quarter of a billion pounds invested during the third quarter of 2024, bringing total investment for the first three quarters of 2024 to just over £1 billion.

Investment volumes into the UK data centre market are nearly triple the recorded volumes for the same period in 2023, and 140% above average three-quarter volumes since 2020.

The largest transaction of the period was Digital Realty's £158 million acquisition of two data centres on the Slough Trading Estate, with a combined IT load of 15MW, marking the company's entry into the Slough submarket.

VACANCY FALLS TO AN ALL-TIME LOW

Vacancy rates in the UK's data centre market have fallen to an all-time low of 6.1%. Alongside this, construction pipelines are 83% pre-let.

Availability in the UK stands at 79MW, whilst at the same time, excess demand within the market is expected to exceed 1GW (1,000MW) by 2029.

In London, particularly in its core western submarkets, vacancy rates consistently hover below 5%.

CLOUD CONTINUES TO DOMINATE LEASING VOLUMES

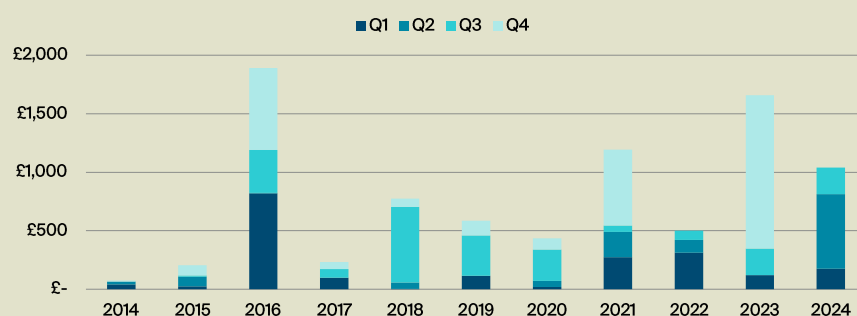
Cloud-based demand from global cloud service providers – Microsoft, Amazon Web Services, Google – continues to dominate take-up volumes in the UK, being responsible for 81% of leasing transactions in 2024 so far. To date, cloud-based demand has been responsible for 56% of aggregate take-up across the UK market.

The UK has also seen its first artificial intelligence (AI) dedicated leasing transaction in Crawley, London.

Aggregate supply volumes have also jumped by 30% over the first three quarters of the year, with Live IT volumes also having increased by 11.5%.

Investment volumes

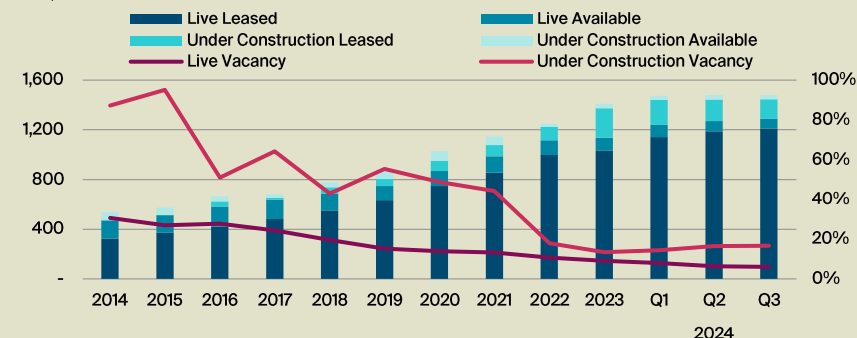
£million



Source: Knight Frank Research, RCA

Availability & vacancy

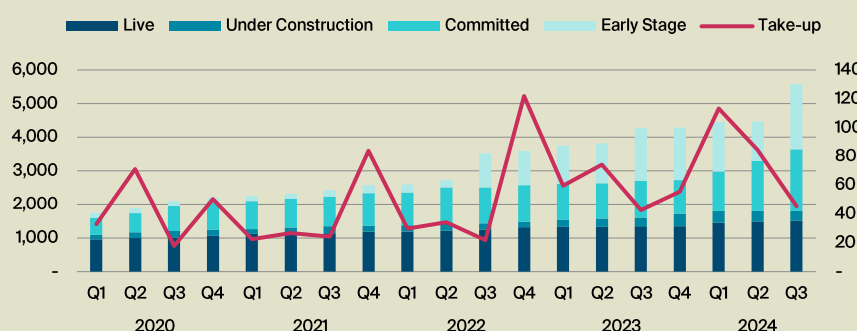
MW / %



Source: Knight Frank Research

Supply & take-up

MW



Source: Knight Frank Research, DC Byte

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Healthcare

2024 keeps its pace

VOLUMES TAKE A STEP IN THE RIGHT DIRECTION

Transaction volumes for the year through to Q3 2024 are just under £1.6bn, adding £610m to H2 2024's volume of c.950m. This is positive news, considering that 2023 finished with transaction volume levels of £1.2bn overall. Therefore, with Q4 completions still on the card, we can suggest that 2024 has, so far, been a more active year for healthcare real estate.

It is worth noting that this volume includes the large portfolio deal, which is the purchase of NW REITs UK portfolio by Assura for £500m. This also means that whilst the vast majority of the transactions have been on the elderly care side, we have seen some diversity in capital deployment within the sector.

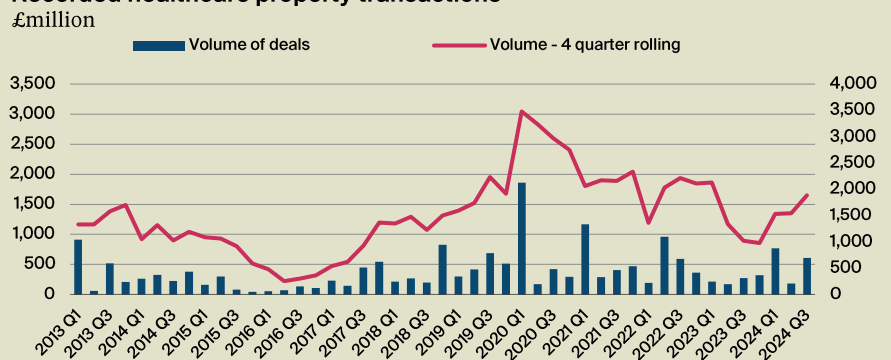
Key transactions include Hartford Care, Signature Senior Living and Berkley Care, along with the acquisition of Care UK by Welltower for an undisclosed fee, which will be part of completions to be reported in Q4.

OVERSEAS REITS DIG DEEP

Deal structures have also played a huge role in the sector's transaction volumes. Large North American REITs are chasing double-digit IRRs and, therefore, seeking more substantial net operating income than that available via the conventional triple-net lease.

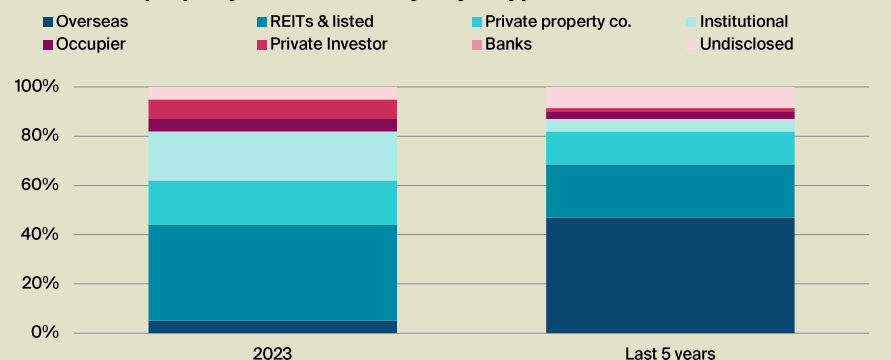
Consequently, we have seen more deals with WHOLECO, or management agreement style take place. The creative nature behind such deal structuring highlights that there is still significant opportunity in the sector, whether from partnerships, portfolio acquisition or the opportunity to consolidate operating platforms.

Recorded healthcare property transactions



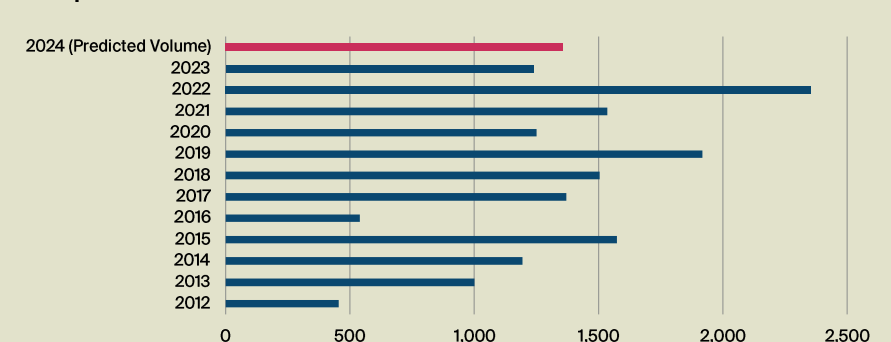
Source: Knight Frank Research

Healthcare property transactions by buyer type



Source: Knight Frank Research

Anticipated transaction volume*



*Large portfolio transactions not included in initial predictions

Source: Knight Frank Research

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Healthcare

Strong operational performance validates positive sentiment

OPERATIONAL KPIS HIGHLIGHT RESILIENCE

Provisional statistics from our 2024 Care Home Trading Performance Index, which covers approximately 100k beds, accounting for 70% of the corporate market and one-fifth of the total market, suggest strong operator trading. Occupancies seemed to have returned to or, in some cases, even above pre-pandemic highs at 88.8%.

We have also seen growth in the UK average weekly fee level. All care average fees are up approximately 7% annually, sitting at £1170 per week.

In line with this, staffing costs as a percentage of income have benefitted from improvements and have decreased from last year's 60% to 56.7%.

EBITDARMS of care operators are also moving in a positive direction at 25.9% (up from 25.2% last year), likely a resulting factor of improved occupancies and fee growth boosting revenues.

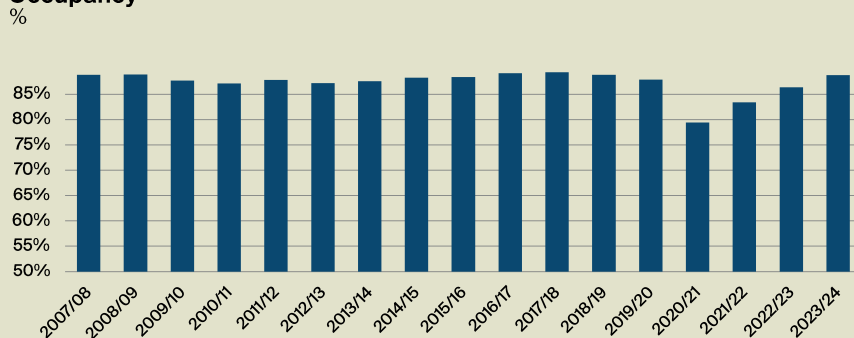
STAGNANT SUPPLY

There has been a trend of greater deregistrations over the last five years, largely due to the fact that much of the deregistered stock consists of smaller and older assets, naturally 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.

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

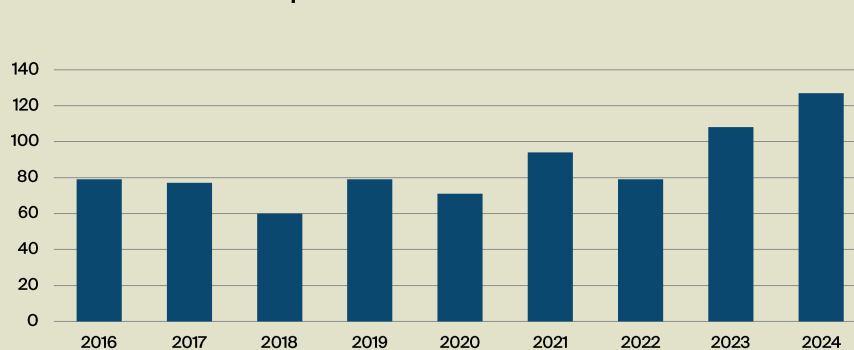
Considering the minimal growth in supply numbers, it is more than clear that we need to build more homes to service our ageing population. The demographic shift is such that by 2050, we anticipate a shortfall of more than 200,000 beds.

Occupancy



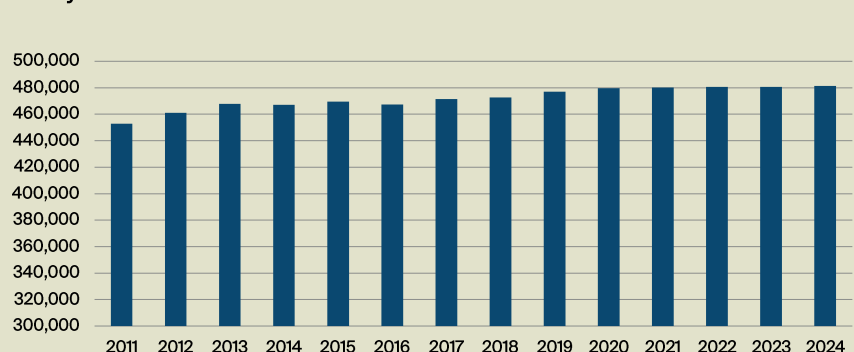
Source: Knight Frank Research

New UK care homes completed



Source: Knight Frank Research

Elderly Care Home Beds



Source: Knight Frank Research

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Life sciences

UK life sciences VC funding shows signs of improvement. Labour’s budget positively received for its R&D support, though concerns linger over operational costs and university funding

SECOND BEST YEAR-TO-DATE FOR UK LIFE SCIENCES VC FUNDING

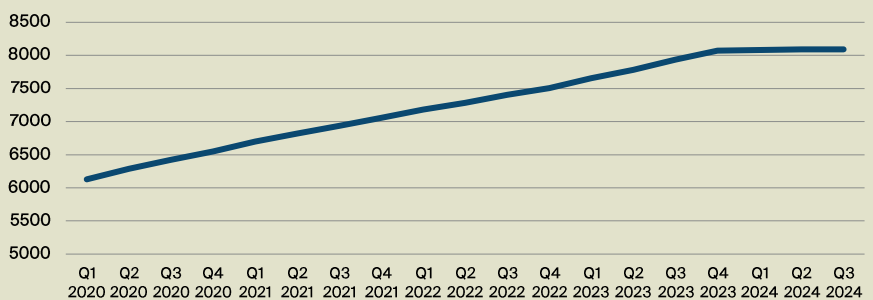
UK life sciences venture capital funding has made notable progress this quarter. While overall UK venture capital (VC) funding dropped by 51% quarter-on-quarter, life sciences VC saw a significant rise of 34%, amounting to £872.2m. This brings the total raised this year to over £2.3bn, making it the second strongest Q1-Q3 period of the last decade.

Excluding the pandemic peak, widely considered an anomaly, this is the best year-to-date performance on record. Life sciences and healthcare, alongside enterprise software, is now the second most funded sector in the UK, trailing only fintech. Looking ahead to 2025, this momentum suggests a strengthening investment landscape for the UK life sciences sector.

The recent UK budget has sparked positive feedback from the life sciences sector, particularly due to its commitment to preserving R&D funding, funding to grow the Cambridge cluster and new initiatives such as the £520m Life Sciences Manufacturing Fund. However, increased National Insurance contributions could impact hiring, even with small business concessions, and there are concerns about the support for universities, key players in the life sciences ecosystem. Labour has previously stated that it aims to create 100,000 life sciences jobs by 2030. The next phase in Labour’s plans to ignite growth will be an update on financial services reforms. Aligning the UK’s leading financial services sector with life sciences will be crucial.

Outside of the budget, other plans for growing the sector include - the new Office for Investment and National Wealth Fund, pension fund reforms to boost startup investment, ten-year funding plans for major research institutions, NHS reform, and a long-term industrial strategy, currently out for consultation.

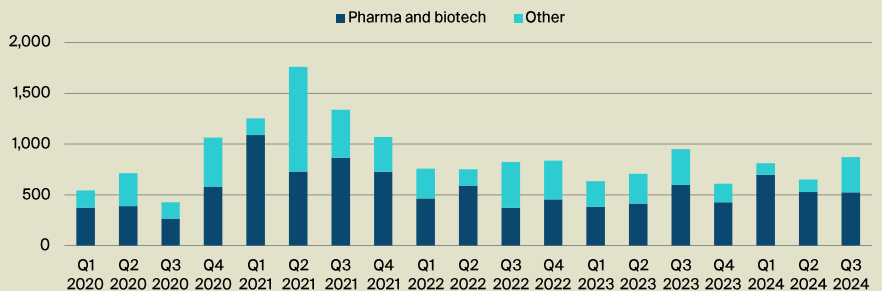
Number of active UK life sciences companies



Source: Knight Frank Research, Clinicaltrials.gov

UK life sciences venture capital funding

VC funding into UK life sciences companies, £million

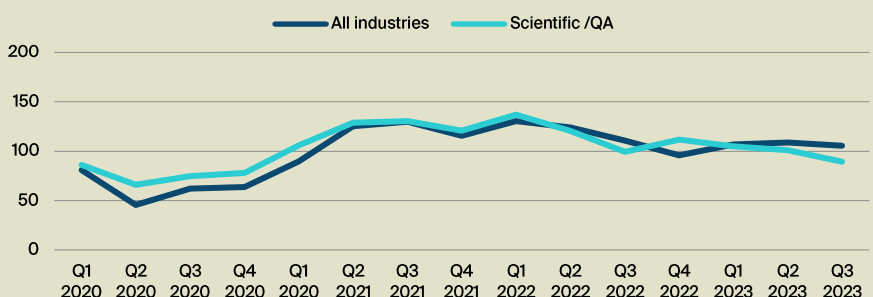


HQ only. Completed deals and full transactions only. Covers: Biopharma, MedTech and Digital health. Data as at 04/07/2024. The data in PitchBook is continuously updated to reflect the most current information. As a result, historical data may change over time.

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

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Life sciences

Although both take-up and life sciences real estate investment volumes in the Golden Triangle remain below the five-year average, multiple transactions are currently in progress

CURRENT TAKE-UP REFLECTS CAUTIOUS SHORT-TERM DYNAMICS, BUT UNDER OFFERS AND NAMED DEMAND INDICATE IMPROVEMENT AHEAD

The real estate market is experiencing cautious short-term dynamics, with life sciences real estate take-up in the Golden Triangle down by 33% quarter-on-quarter to 82,853 sq ft, 50% below the five-year quarterly average. The historical decline in venture capital funding has contributed to some hesitancy in decision-making. However, with over 165,000 sq ft currently under offer, there are signs of market improvement on the horizon. Named demand for lab space also remains robust at c.1.4m sq ft across the Golden Triangle. The specific space requirements vary by market. In London, for example, demand is driven by early-stage companies needing smaller spaces.

Key deals across the region include biotech company Nucleome Therapeutics signing for c.24,000 sq ft at Mission Street and BGO's Inventa scheme in Oxford.

Construction of suitable space is progressing, with over 4m sq ft under construction and expected to be completed between now and the end of 2027. This development is crucial for supporting continued growth in the sector.

Notably, as the new quarter began, Prologis announced a landmark £500m investment in the Cambridge Biomedical Campus, underscoring confidence in the sector and Cambridge's position as a leading life sciences hub.

GOLDEN TRIANGLE LANDS A SINGLE £125M LIFE SCIENCES DEAL, WITH MULTIPLE TRANSACTIONS IN THE PIPELINE

Investment volumes remained subdued in Q3, totalling £125m from a single deal. This was the sale of the home of life sciences group Abcam, at the Cambridge Biomedical Campus, to its tenant. Tesco Pension Fund was the seller. The ultimate buyer is Danaher, who recently acquired Abcam.

Looking ahead, several upcoming transactions are expected to drive investment volumes in the next quarters. These include the sale of Clarendon Quarter in Oxford, a 2-acre freehold site with a consented redevelopment scheme featuring lab space, a 50% interest in Chesterford Research Park, and Alchemy in Fowlmere, South Cambridge, a development site with planning consent for an R&D campus. Outside of the Golden Triangle, LondonMetric has put York Biotech Campus up for sale.

One notable deal outside the Golden Triangle was the sale of the Jealott's Hill International Research & Development Centre in Bracknell by M&G to MUFG (Mitsubishi UFJ Financial Group) for £70m, reflecting a 7% net initial yield. The campus is currently occupied by Syngenta, a global agrichemical services group, with approximately 16 years remaining on their lease.

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