MARKET IN MINUTES
*Savills Research*

# Market in Minutes

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## Low volumes but confidence returning

Economic data in the UK remains volatile and unpredictable as recently demonstrated by two recent announcements from the ONS. Firstly, revised GDP figures were released showing that Q4 posted 0.1% growth in Q4 with the original estimate at zero growth. Meanwhile inflation surprised many with CPI rising to 10.4% in February, up from 10.1% in January mainly driven by food shortages experienced at the start of the year which has driven food price inflation to 18.2%, the highest level since 1978.

This volatility has meant investors are still in "wait and see" mode with investment volumes reaching £5.6bn in Q1 23, the lowest quarterly volume since 2009, if we exclude Q2 20 when the onset of Covid-19 paralysed the market.

However, confidence is beginning to return as pricing levels plateau and in some cases move inward as experienced in industrial and regional offices where yields have moved inwards by 25bps, meaning the average Savills prime yield now stands at 5.57%.

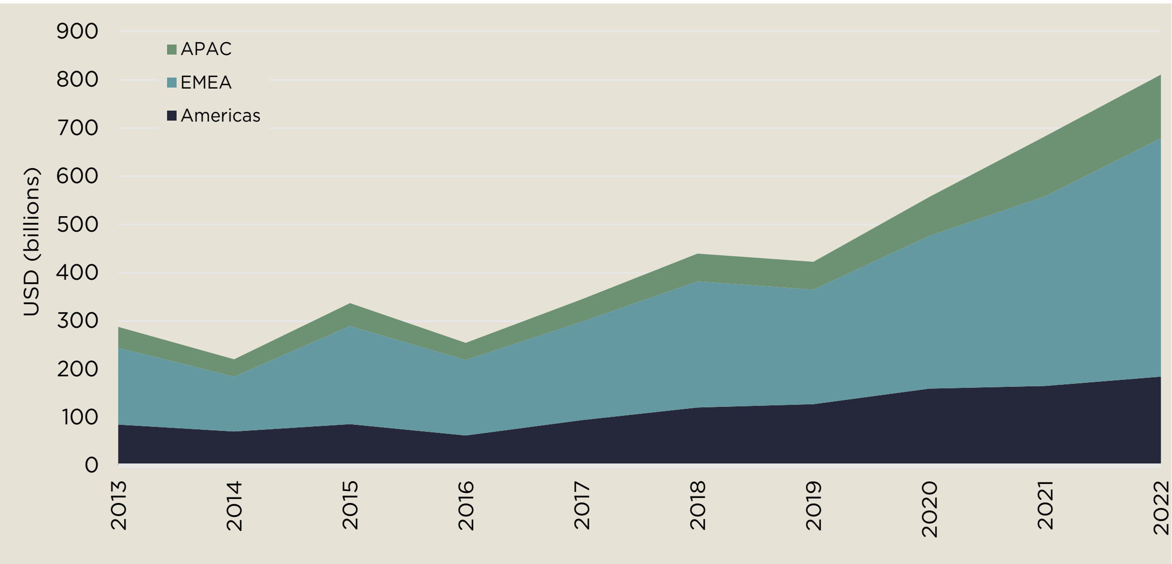
As the year goes on there is potential for investment volumes to trend upwards, as there is plenty of capital ready to deploy when the market does recover, with an estimated US$811bn in dry powder sitting in the accounts of unlisted funds globally. This combined with pricing movements has created a pool of willing buyers but, at this stage, sellers remain in short supply.

### Savills prime yields

| | March 2022 | February 2023 | March 2023 |
|---|---|---|---|
| West End Offices | 3.25% | 4.00% | 4.00% |
| City Offices | 3.75% | 4.50% | 4.50% |
| South East Offices | 5.50%↓ | 6.25%↑ | 6.25%↑ |
| Provincial Offices | 4.75%↓ | 6.00%↓ | 5.75% |
| High Street Retail | 6.25%↓ | 6.50%↓ | 6.50%↓ |
| Shopping centres | 7.50%↓ | 8.00%↑ | 8.00%↑ |
| Retail Warehouse (open A1) | 4.75%↓ | 5.50%↓ | 5.50% |
| Retail Warehouse (restricted) | 4.75%↓ | 6.00%↓ | 6.00%↓ |
| Foodstores (OMR) | 4.25% | 5.25% | 5.25% |
| Ind/ Distribution (OMR) | 3.25%↓ | 5.00%↓ | 4.75% |
| Industrial Multi-lets | 3.25%↓ | 5.00%↓ | 4.75%↓ |
| Leisure Parks | 7.00%↓ | 7.00% | 7.00% |
| London Leased (core) Hotels | 3.50% | 4.25%↑ | 4.25%↑ |
| Regional Pubs (RPI) | 5.25% | 5.75%↑ | 5.75%↑ |

**Source** Savills

**Global dry powder targetting real estate** indicates that investment volumes will rise as the year goes on




**Source** Savills Research using Realfin

### Key Stats

**11 bps**

The change in our average prime yield since January 2023

**10.4%**

The current UK CPI rate which unexpectedly rose in February

**3**

There is downward yield pressure on three sectors at the end of March 2023

**$811bn**

The amount of dry powder in unlisted funds Globally

## Near-shoring starts to benefit UK Logistics market

Much has been written over the last three years regarding near-shoring and re-shoring for supply chain resilience and its impact on global supply chains. Countless surveys of supply chain professionals all pointed to companies wishing to diversify their supply chains so that companies are more insulated to future shocks but also to mitigate for potential future geopolitical issues.

Up until recently there was however very little evidence of this phenomenon filtering through into occupational real estate strategies. That changed in 2022 when, in the UK, we saw 11.4m sq ft of new leases signed for manufacturing related occupiers. This was the highest figure ever recorded exceeding the long term average by 73%.

The companies staking space generally fall into three broad categories: food production, automotive and pharmaceutical. For the food and pharmaceutical supply chain there is a clear need to improve resilience as demonstrated by recent issues with the availability of certain fruit and vegetables whereas in the pharmaceutical supply chain there is clear political will to ensure security around vaccine and medicine supply.

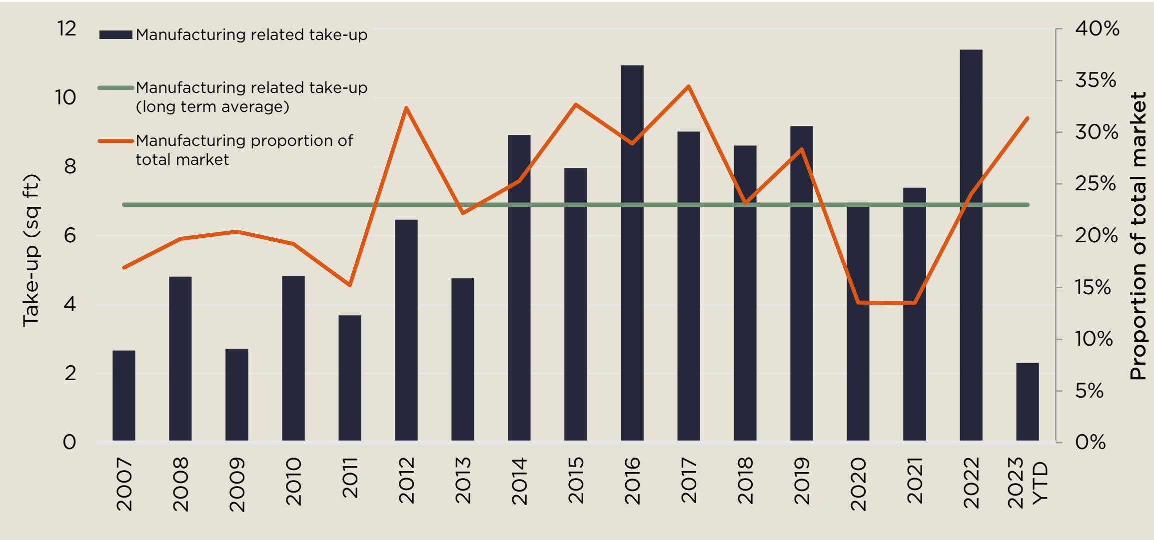
Whilst car production in the UK remains at depressed levels, when compared to pre-Covid levels, the transition to electric vehicles is meaning companies are reorganising and expanding their supply chains to account for new production processes.

This trend has continued into 2023 with provisional Q1 data showing that manufacturing related take up accounts for 31% of demand, against a long term average of 23% of the market.

We expect this trend to continue in the short to medium term as Governments look to support strategically important sectors however reorganising supply chains is a slow moving process and many cost variables are in play such as the cost of labour, land and energy. Moreover occupiers in this sector tend to have a preference for owner occupation given the often strategic nature of such sites in a supply chain.

Whilst this trend is therefore a positive demand driver for the logistics sector as a whole it is not expected to replace falling demand from the online retail segment and will therefore only mitigate for the overall drop in demand we are currently witnessing.

**Manufacturing related warehouse take-up** 2022 was the strongest year ever and this trend has continued into 2023



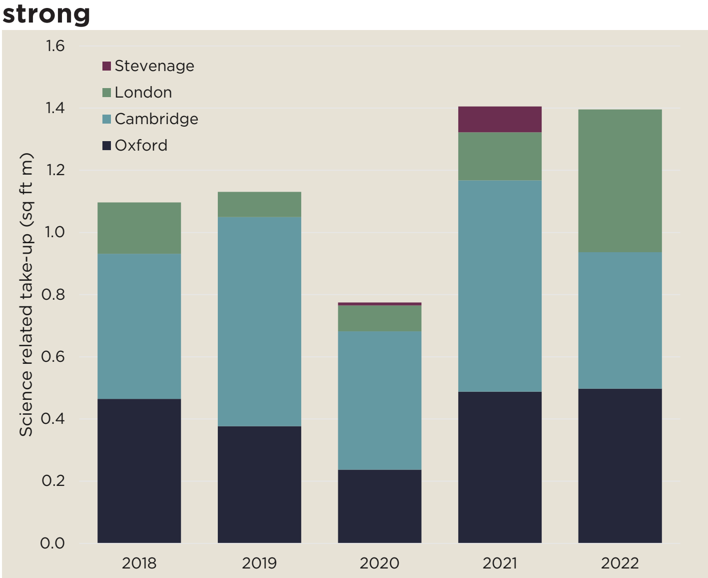

**Source** Savills Research

Take-up for science-related real estate across the 'golden triangle' of London, Oxford and Cambridge totalled 1.39 million sq ft in 2022, the highest figure in the past five years. Both London and Oxford saw an increase in take-up at 451,148 and 497,911 sq ft, respectively. In contrast, our figures show that Cambridge saw a 35% decline in 2022 to 438,911 sq ft, which can be attributed to a critical lack of stock, with vacancy rates for labs at just 0.57% across the city.

Venture capital funding also remained positive in 2022, with London alone 67% above the five-year annual average. In total, the golden triangle saw £2.4 billion of VC raised, which we anticipate will translate into further real estate requirements as these businesses continue their expansion. Looking ahead, Savills has recorded over 4 million sq ft of requirements across London, Oxford and Cambridge, suggesting there is still a significant level of demand for laboratory space.

More can be read on this topic in our latest report on the life science sector.

**Demand for life science-related real estate remains strong**




**Source** Savills Research

## Savills team

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