MARKET IN MINUTES
Savills Research

Market in Minutes

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Acceleration in yield softening

Average prime yields moved out by 18 basis points (bps) to 6.16% in November, an acceleration on the 4bps shift reported the previous month and the largest outward move since July. Nine sectors reported yield softening with the largest movement (+50bps) reported for South East offices. And looking to the early part of 2024 we expect to see additional outward shifts with four sectors citing outward arrows. Any additional softening, however, should be minimal subject to the expectations that the current Base Rate cycle has peaked hold true.

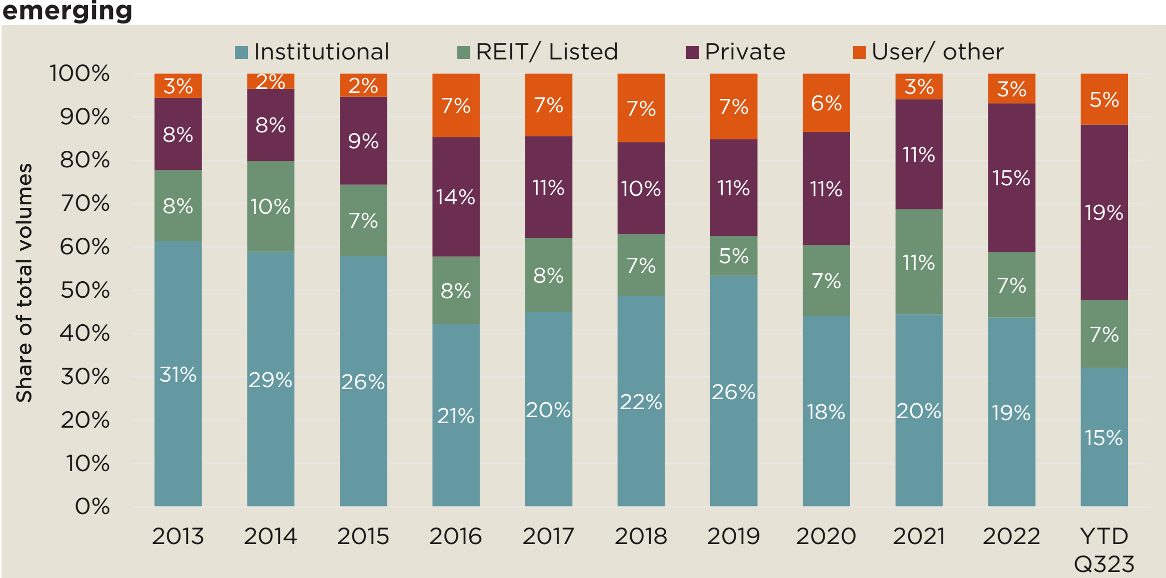
Transactional activity remains muted, albeit confidence is starting to improve. International investors continue to dominate activity accounting for 54.1% of year-to-date volumes in Q3, in line with the five year average. But, it has been activity by Privates that has really stepped up. Last year private investors accounted for 15% of volumes across UK commercial (office, retail, industrial and hotels). This equated to total volumes of £6.9bn, the highest amount invested by this group since 2013; its year to date share is at 18.5%. Clearly privates, more immune to high debt costs, are capitalising on diminished competition to secure assets at more attractive values. Along with privates, we are also starting to see a more diversified buyer pool emerge as the price shift of the last 12 months is delivering price discovery and interest from new investors.

Savills prime yields

	November 2022	October 2023	November 2023
West End Offices	3.75%	4.00%	4.00%
City Offices	4.25%↑	5.25%	5.25%
South East Offices	6.00%↑	7.00%↑	7.50%
Provincial Offices	5.75%↑	6.50%↑	6.75%↑
High Street Retail	6.50%	6.75%↑	7.00%
Shopping centres	8.00%↑	8.25%↑	8.25%↑
Retail Warehouse (open A1)	5.75%	5.75%	6.00%↑
Retail Warehouse (restricted)	6.00%	6.25%	6.50%↑
Foodstores (OMR)	5.25%	5.25%↑	5.50%
Ind/ Distribution (OMR)	5.00%	5.25%	5.25%
Industrial Multi-lets	5.00%	5.25%	5.25%
Leisure Parks	7.50%↑	7.50%↑	7.75%
London Leased (core) Hotels	4.25%	4.50%↑	4.75%
Regional Pubs (RPI)	5.75%	6.25%	6.50%

Source Savills

Private investors have become more acquisitive with a more diversified buyer pool emerging



Source Savills, RCA (UK commercial volumes including offices, retail, industrial and hotel)

Key Stats

The UK average prime yield moved out 18bps to 6.16%

18.5%

Private investors share of YTD UK Commercial property transaction volumes

4

Number of sectors that have an upwards prime yield expectation

Christmas 2023, bumper year or damp squib for retailers?

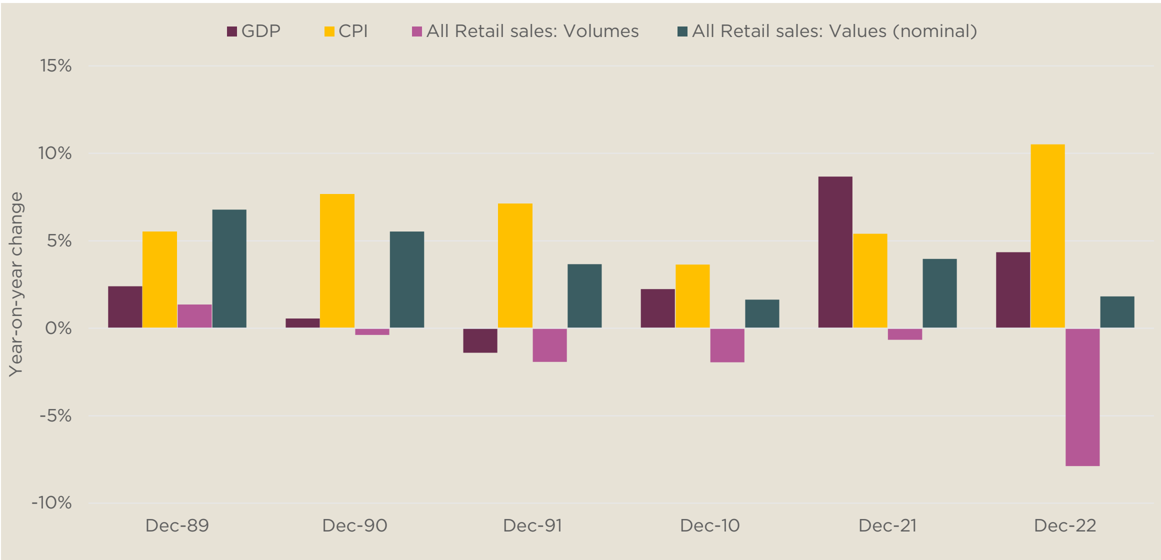
Being the December issue it seems only right to take a look at what Christmas 2023 may hold for retailers and what this could mean for the year ahead.

The cost of living squeeze has been taking its toll on consumer confidence and in turn spend. For example, while retail sales in nominal value terms have been in positive territory, with inflation stripped out every month of 2023 has seen retail sales contract. Likewise, volumes, a better indicator of consumers propensity to shop, has also consistently been in negative territory this year.

But, while spend this Christmas is likely to be muted against historical standards it may be better than what we saw last year. Retail sales volumes for the month of December in 2022 was down 8% year-on-year (YoY) with a very weak 1.8% uplift in retail sales values. In terms of volumes this was the largest decline for the month of December since 1989. While inflationary pressures have not fully dissipated they are on the wane with CPI already half of that seen in December 2022. This is no doubt feeding through to consumer confidence which has been on an upwards trajectory over the course of 2023 with GfK reporting a 20 point improvement in November 2023 against the same month last year. Looking to previous December's where inflation was running at a similar rate to what we have now suggests a contraction in volumes in the region of 1% with sales in value terms reporting positive growth.

Christmas 2023 may not be a bumper year but, on the whole, won't be a total wash out for retailers either. This and improving consumer sentiment for 2024, coupled with the continued slowing in inflation, points to an improving retailing landscape next year.

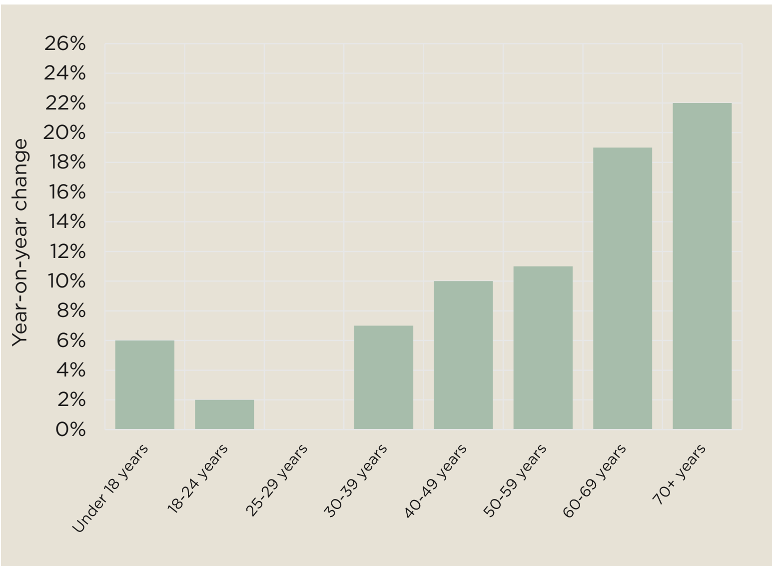
Retail sales performance for the month of December in previous high inflationary periods



Source Savills, ONS

Retail spend over the festive period may be relatively muted, but spend on eating and drinking out may prove to be a bright spot if recent trends are anything to go by. Lloyds Bank Market Intelligence (LBMI), drawing on aggregated data from Lloyds 26 million customers over the 12 months to October 2023, found that consumers continue to be spending on 'experiential' activities such as going out. Spend was up 9% YoY, and while some of this growth will be driven by inflation the fact that the number of transactions was up 7% is a more telling statistic. More interestingly were the consumer groups driving this spend. According to LBMI it was spend by older cohorts that saw the largest increase. Spend by the 60-69 year old group was up 19%, for the over 70's it was up 22%. While the 30-39 age cohort accounts for the largest share of spend the resilience of the 'grey pound' particularly in the face of macro-economic headwinds means they are an important consumer group for pub and restaurant businesses.

Spend on eating & drinking out; older cohorts driving recent growth



Source: Lloyds Bank Market Intelligence

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