MARKET IN MINUTES
*Savills Research*

# Market in Minutes

## Things can only get better?

There were signs in June that improving market confidence was starting to have an influence on pricing, with high street retail yields coming in by 25 bps and four sectors reporting downward pressure on yields. March was the last month we saw that many sectors reporting downward pressure and was a month where no sectors saw yields come in.

Falling debt costs has been a catalyst to this, coupled with improving occupational metrics in some sectors. But, this improving sentiment is not universal across the board. Two sectors (South East Offices and Leisure Parks) reported a further softening in yields of 25 bps in both cases in June. The former was assigned with an upwards arrow pointing to further yield softening reflecting the structural and legislative shifts impacting that part of the market.

And while we may be seeing the early signs of improving investor sentiment as reflected in pricing, its read-through to transactional activity is unlikely to materialise until later this year, judging by its historical relationship to CFO confidence. Shifts in Deloitte's CFO sentiment survey, which can be used as a proxy for investor sentiment, has tended to pre-empt changes in commercial investment by four quarters (see below). With CFO confidence in recovery since Q3 2023, with the recent election likely to bolster this, we may see investment volumes start to pick up in H2.

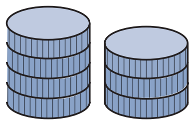
### Savills prime yields

| | June 2023 | May 2024 | June 2024 |
|---|---|---|---|
| West End Offices | 4.00% | 4.00% | 4.00% |
| City Offices | 5.00% | 5.25% | 5.25% |
| South East Offices | 6.75%↑ | 7.50%↑ | 7.75%↑ |
| Provincial Offices | 6.00%↑ | 7.00% | 7.00% |
| High Street Retail | 6.50%↑ | 7.00% | 6.75%↓ |
| Shopping centres | 8.00%↑ | 8.25% | 8.25%↓ |
| Retail Warehouse (open A1) | 5.50%↑ | 5.50% | 5.50% |
| Retail Warehouse (restricted) | 6.00%↑ | 6.00% | 6.00% |
| Foodstores (OMR) | 5.00% | 5.50% | 5.50%↓ |
| Ind/ Distribution (OMR) | 5.00%↑ | 5.00% | 5.00% |
| Industrial Multi-lets | 4.75%↑ | 5.00% | 5.00% |
| Leisure Parks | 7.25%↑ | 7.75% | 8.00% |
| London Leased (core) Hotels | 4.25% | 4.50%↓ | 4.50%↓ |
| Regional Pubs (RPI) | 5.75% | 6.50% | 6.50% |

**Source** Savills

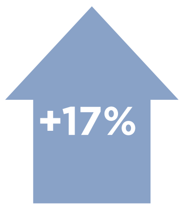
### Key Stats


The UK average prime yield largely held in June



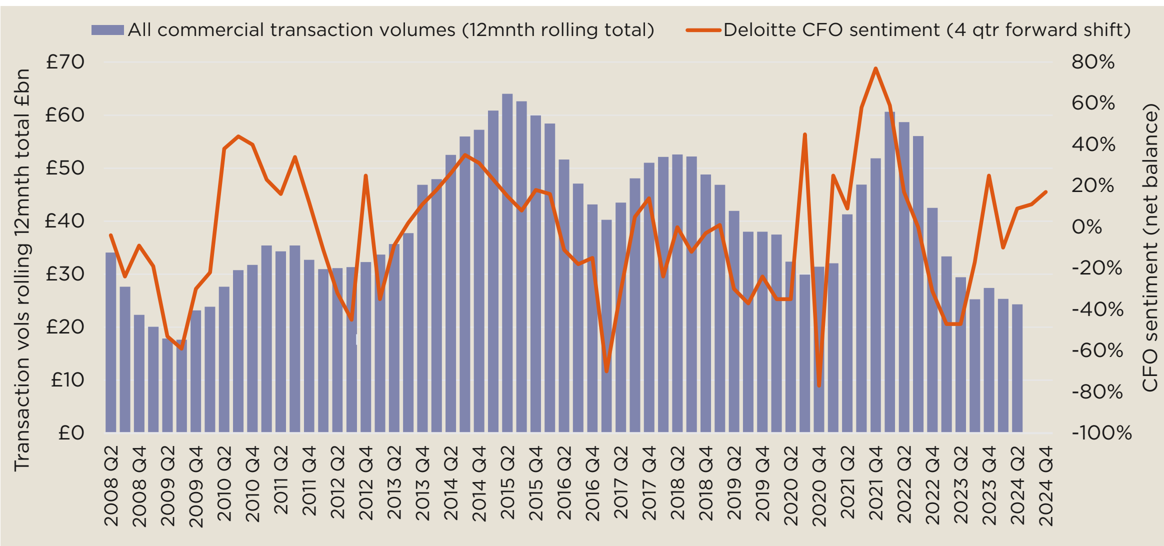
**£5.7bn**

Provisional UK commercial transaction volumes for Q2 2024




Deloitte's CFO sentiment survey reached +17% in Q1 2024, up 64 percentage points on its mid 2022 low of -47%.

**UK commercial transaction volumes** Improving CFO sentiment has tended to pre-empt a recovery in transactional activity




**Source** Savills, RCA, Deloitte CFO Survey (Note: commercial volumes includes offices, retail, industrial and hotels)

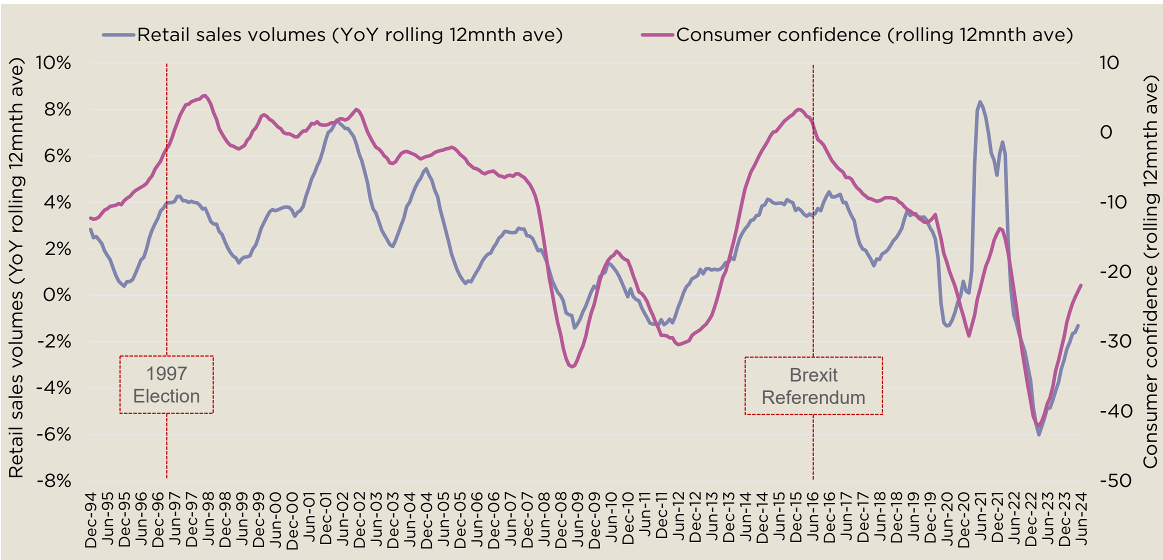
## Talking of the election, are we going to see a 1997 bounce in consumer confidence and, in turn spend?

In case you didn't notice, there was a UK general election on 4th July, with Labour securing a landslide victory after 14 years of Conservative governance. But, unlike the 1997 Blair landslide victory, there was little reason to pump out D:Ream's 'Things can only get better' as the economic backdrop to this Labour victory is very different to that seen in 1997.

However, we might still see a recovery in consumer confidence and, in turn, spend similar to what followed the 1997 election. Prior to that election there had been a steady improvement in consumer confidence, albeit for the months either side of the election and, for the election month itself, there was not a material shift. Marked improvements in consumer confidence was not seen until Labour's first budget in early July, which then facilitated a sustained growth in retail sales volumes. While there may have been a post-election feel-good factor, economic growth was key to this.

Fast forward 17 years and we've seen a similar pre-election recovery in consumer confidence, coupled with an improvement in retail sales volumes, albeit, in year-on-year (YoY) terms, it remains in negative territory. But the backdrop in 2024 is very different to 1997. Brexit, the pandemic, and record-high inflation have all taken their toll on the consumer, and while inflation has slowed significantly, the squeeze on household finances hasn't dissipated. There needs to be the return of meaningful economic growth for consumer confidence and, in turn, retail sales to move back to positive territory, which, in turn will further support economic growth. With the new chancellor slating her first budget for the autumn, this acceleration in the economy may not materialise until early 2025. However, in the interim, it looks likely that we will see some post-election improvement in confidence and spend if history is anything to go by.

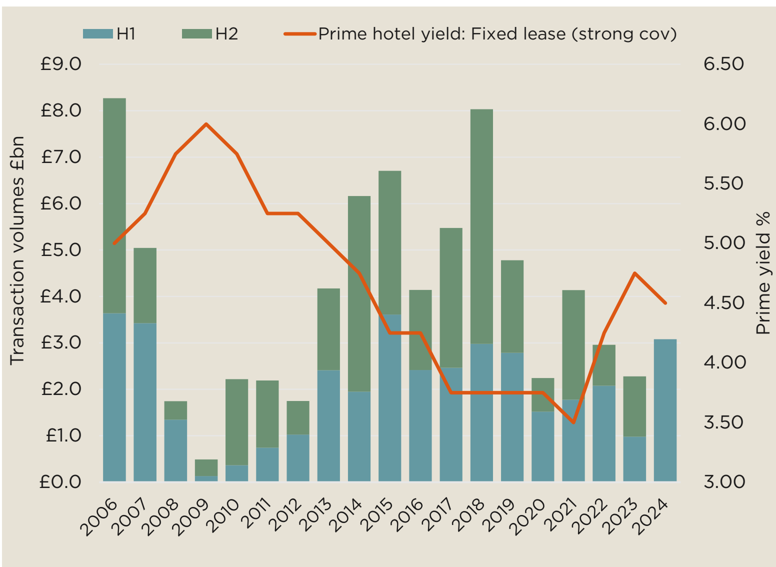
**Election impact** Will there be a bounce in consumer confidence and retail sales volumes?




**Source** Savills, ONS, GfK

There was one part of the commercial market that bucked the continued slowdown in transaction activity over H1 2024, and that was hotels. Hotel investment volumes reached £3.08bn over the first half of 2024, 35% up on full-year 2023 levels and the highest H1 total since 2015. This surge in activity was helped by a number of portfolio deals completing including the reported £780m acquisition of Village Hotels by Blackstone, supported by renewed investor interest in the sector. Pent-up travel demand and robust operational performance have been key to this and is reflected in the contraction in prime leased hotel yields over the course of 2024. But, it has been the narrowing in seller-buyer expectations, in response to operational margin pressures, that has really helped to bolster activity as sellers have become more realistic. As a result, we're expecting year-end volumes to reach £5bn, bringing activity back in line with 2019 levels.

**Hotel transaction volumes** H1 up 35% on full-year 2023




**Source** Savills

## Savills team

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