MARKET IN MINUTES

Savills Research

Market in Minutes

No real change in April

Average prime yields held at 5.57% in April, with outward shifts in some parts of the market offset by yield compression elsewhere. Retail warehouses both restricted and Open A1 delivered on expectations with yields coming in by 25bps (basis points) in April. Whereas, London City and South East offices drifted out by 25bps. In the case of the former, and industrials which continues to report downward yield pressure, strong occupational dynamics continues to exert a positive influence on investor sentiment. These sectors look favourable due to low vacancy and robust rental growth projections. The same goes for hotels where operational performance continues to improve, restricting outward yield shifts compared to other parts of the market.

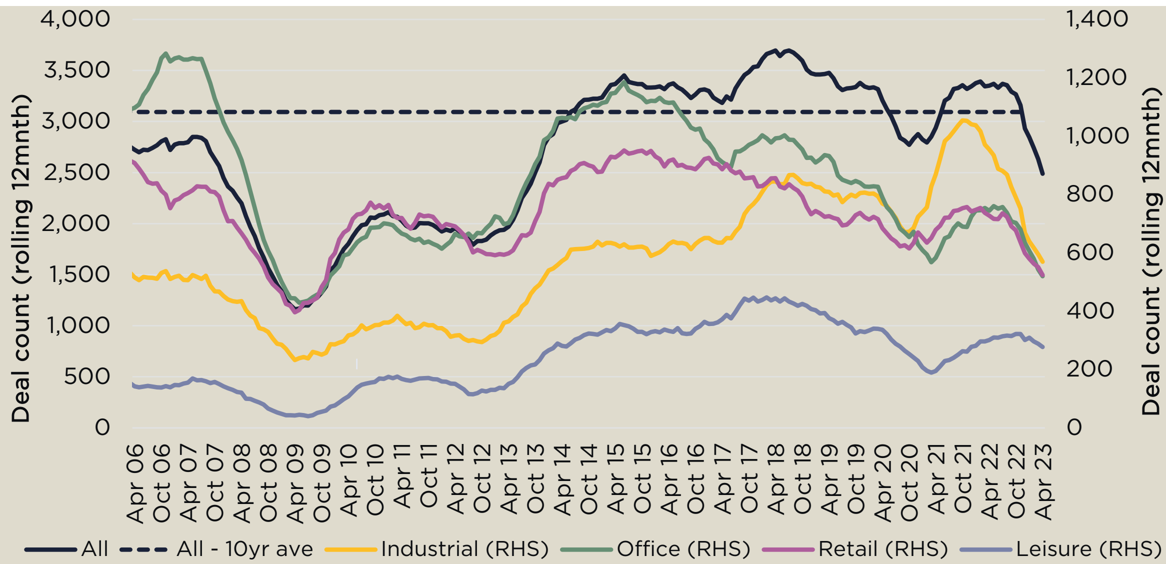
Reduced transactional evidence is however making it increasingly difficult to assess prime yields. Deal volumes have been slowing since Q3 2022, albeit we are still way off GFC deal count lows. Much of the slow down can be attributed to mismatched seller-buyer expectations. This has been helped by reduced or rather delayed refinancing events. Anecdotally we are aware that some lenders are extending lending terms on a rolling short term basis. Once this type of activity reduces, bringing more willing sellers to the market, transaction volumes are likely to increase as will yields in some parts of the market particularly in light of current debt costs.

Savills prime yields

	April 2022	March 2023	April 2023
West End Offices	3.25%	4.00%	4.00%
City Offices	3.75%	4.50%	4.75%
South East Offices	5.50%↓	6.25%↑	6.50%
Provincial Offices	4.75%↓	5.75%	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%↓	5.25%
Retail Warehouse (restricted)	4.75%↓	6.00%↓	5.75%
Foodstores (OMR)	4.25%↓	5.00%	5.00%
Ind/ Distribution (OMR)	3.25%↓	4.75%	4.75%↓
Industrial Multi-lets	3.25%↓	4.75%↓	4.75%↓
Leisure Parks	6.75%↓	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

Deal activity has slowed significantly but is still well above GFC lows

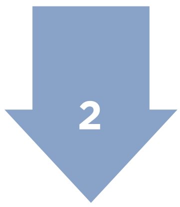


Source Savills, PropertyData

Key Stats

The UK average prime yield held at 5.57%

the percentage difference in April's rolling 12-month investment transaction deal count to the GFC low of April 2009



Number of sectors that have a downward prime yield expectation

When it comes to experience spend, is the cost of living squeeze starting to abate?

Despite all the rhetoric and forecasting, inflation has proved to be particularly 'sticky'. March CPI inflation slowed but only by 30bps to 10.1% although forecasts from Oxford Economics suggest it could slow to 3.2% by the end of this year.

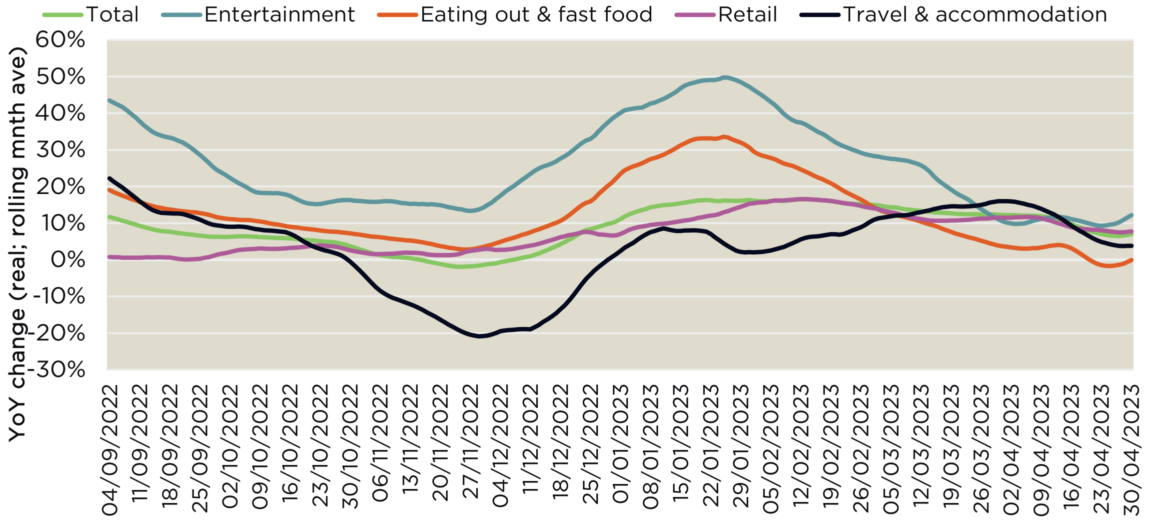
The squeeze on real disposables that high inflation has generated has had a bearing on consumer confidence and in turn discretionary or rather 'experience' spend, such as eating out and entertainment. This is evidenced in the data from ONS using daily spend data from Revolut. In real terms we have seen year-on-year (YoY) spend on eating out and entertainment slow below what we saw heading into the 2022 Christmas period suggesting that the cost of living crisis started to impact these discretionary categories. For example, year-on-year spend on eating out moved into negative territory in the early part of April, down -1.7%.

But, the beauty of the Revolut data is that it provides us with daily insight of evolving trends. And it looks like in the last week of April, ahead of the first May bank holiday, spend on eating out, entertainment and travel & accommodation all increased again in real terms. Spend on eating out based on the 7-day rolling average to the 30th April was up 16.1% YoY in real terms. Entertainment spend on the same basis was up 28.9%. So why the trend reversal and is it sustainable?

Recent improvements to consumer confidence, particularly as it looks like the UK will just about avoid recession this year, has no doubt helped to bolster spend in more 'experience' led categories. This has been aided by consumers reducing expenditure elsewhere and/or trading down on non-discretionary items. Drawing on excess savings by more affluent households has also helped to support this discretionary spend growth, particularly when it comes to holidays.

Subject to inflationary trends and wider economic conditions we expect this upward trend will continue over the coming months, as the fundamental shift towards 'experience' spend remains unchanged.

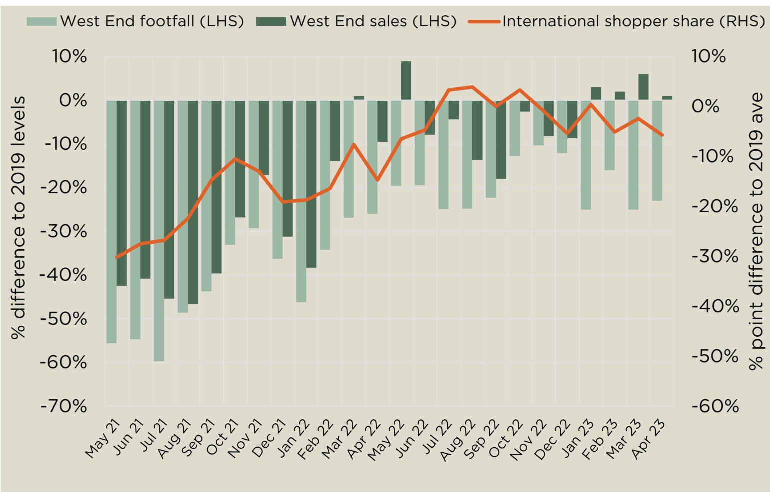
Early signs that 'experience' spend is returning to real growth



Source Savills, BoE Revolut data

Central London's retail market has been a laggard to the rest of the country when it came to the pandemic recovery. But, 2023 marks the year that spend and in turn occupational demand has turned a corner. Footfall continues to lag pre-covid levels but this differential is likely to remain the norm considering the entrenchment of agile working. The more important indicator of health is not footfall but spend and over the first four months of 2023 sales in the West End were ahead of equivalent pre-covid levels. This spend recovery has been aided by robust domestic spend but also the return of international shoppers. Considering that international shopper sales are not fully recovered (April share was 41%, 5.7 percentage points below the 2019 average) there is still scope for further growth. Judging by forward booking flight data for London this recovery in international spend is likely to gather pace over the summer months.

Spend in Central London's West End back at 2019 levels



Source: NWEC

Savills team

Please contact us for further information

James Gulliford
Joint Head of UK Investment
020 7409 8711
jgulliford@savills.com

Richard Merryweather
Joint Head of UK Investment
020 7409 8838
rmerryweather@savills.com

Marie Hickey
Director
Commercial Research
020 7409 8288
mlhickey@savills.com

savills