MARKET IN MINUTES

Savills Research

Market in Minutes

savills

Full steam to Christmas?

With an autumnal chill in the air, is the stage set for a warming up of the investment market? So far, in terms of investment volumes, 2024 has been an almost mirror image of 2023.

According to initial figures from RCA year-to-date (YTD) investment volumes for 2024 are £29.4bn, with 2023 reaching £30.6bn for the same period, as the chart below demonstrates.

From early August, we started to witness a rise in the number of inspections and underbidders for assets in core locations and the number of buyers and sellers actively in the market has started to pick up pace. However, not all segments of the UK market are performing equally. Research from Savills highlights that in the Hotels sector, we estimate volumes have reached £3.8bn YTD, surpassing the total 2023 volume by £1.6bn. Whereas in the office and industrial sectors volumes currently sit at 48% and 55%, respectively, of their 2023 totals. We have observed there are increasingly bigger lots being brought to the market, both in the office and retail sectors, which, if they trade, will boost volumes further.

In terms of pricing, for the second month in a row we have witnessed our average prime yield move in, this time by 4 bps, driven by 25bps movements in both subsectors of the retail warehouse market.

Assuming the trajectory for further inward base rate movements remains intact and that the first budget from the new government doesn't spook wider capital markets , we expect both an increase in volumes for the fourth quarter and further inward movement of our average prime yield.

Savills prime yields

	September 2023	August 2024	September 2024
West End Offices	4.00%	4.00%↓	4.00%↓
City Offices	5.25%	5.25%	5.25%
South East Offices	7.00%	7.75%↑	7.75%↑
Provincial Offices	6.25%↑	7.00%↓	7.00%↓
High Street Retail	6.75%↑	6.50%	6.50%
Shopping centres	8.25%↑	8.00%	8.00%
Retail Warehouse (open A1)	5.75%	5.50%	5.25%
Retail Warehouse (restricted)	6.25%	6.00%	5.75%
Foodstores (OMR)	5.00%	5.50%↓	5.50%↓
Ind/ Distribution (OMR)	5.25%	5.00%	5.00%
Industrial Multi-lets	5.25%	5.00%↓	5.00%↓
Leisure Parks	7.50%↑	8.00%	8.00%
London Leased (core) Hotels	4.50%↑	4.50%↓	4.50%↓
Regional Pubs (RPI)	6.25%↑	6.50%↓	6.50%↓

Source Savills

Key Stats

£29.4bn

Total investment volumes YTD, almost the same as Q1-Q3 '23

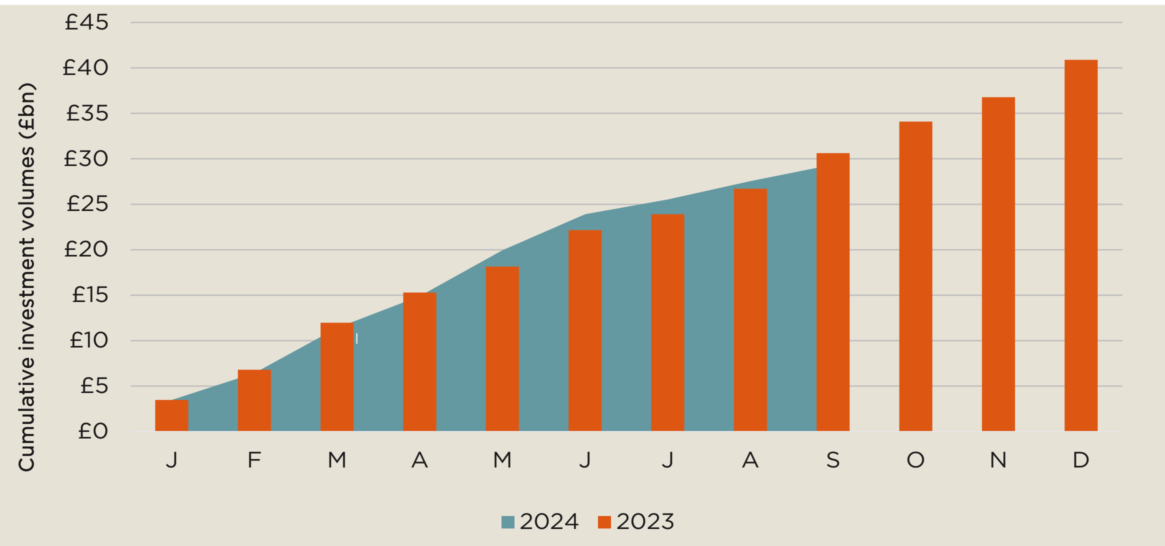
6

Number of sectors currently with a downward trend arrow

£1.6bn

Hotel investment volumes have already reached £3.8bn, £1.6bn ahead of their 2023 total

Investment volumes in 2024 So far a mirror image of 2023, but a stronger Q4 should mean the year finishes on a high.



Source RCA

The rise of the data centre market will drive rental growth for industrials

Undoubtedly, the most popular talking point of 2023 was the disruptive revolution of artificial intelligence (AI). A theme which generated a flurry of headlines following the launch of ChatGPT at the end of 2022, ushering in what will be remembered as the breakout year of AI.

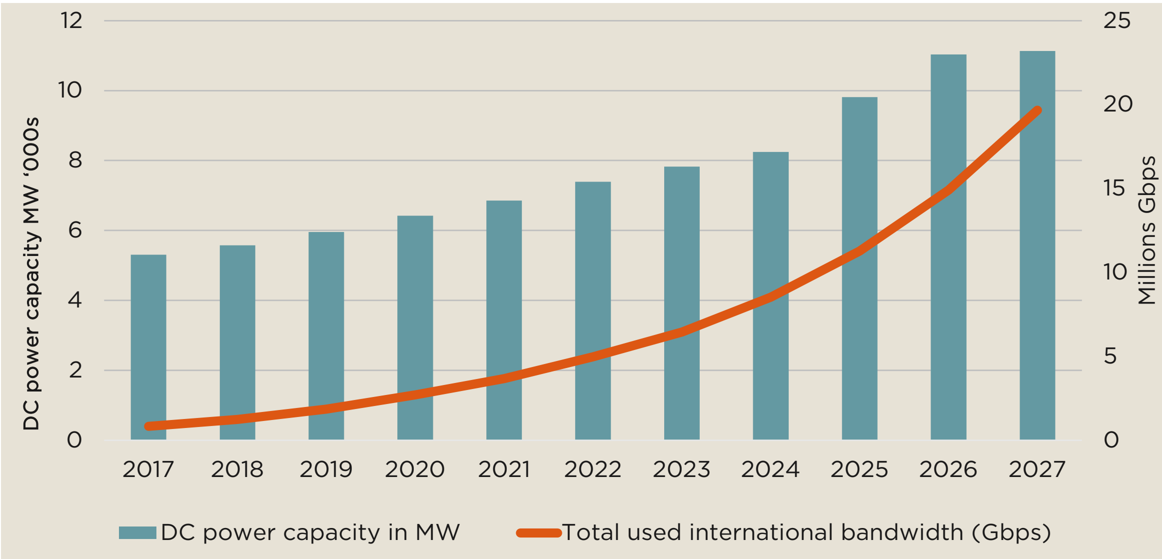
The real estate impact of this growing trend is quickly becoming apparent, with a raft of data centre deals being announced to the market. Historically, the location of a data centre was closely aligned to the financial markets and fibre connections, but we are observing a trend that AI and cloud computing facilities are more location agnostic and driven by power availability and ultimate site deliverability.

There are approximately 1,900 active facilities in Europe, representing a power capacity of around 8,000 megawatts (MW). 67% of this capacity is concentrated in just five countries: the UK, Germany, Ireland, the Netherlands, and France. Colocation data centres make up 63% of the total live capacity. In the past four years, we've seen many new developments—over 270 projects have added 1,700 MW, showing an annual growth rate of about 7%. Looking ahead, expansion plans are set to accelerate. Over the next four years, Europe is expected to add 3,110 MW of data centre capacity, averaging a 9% growth rate and bringing the total to around 11,400 MW by 2028.

Whilst the current pipeline is mainly located in traditional core markets, future supply is anticipated to be limited due to emerging laws and policies related to energy consumption, sustainability and high land and construction costs. Hence, an increasing number of new locations with cheaper land and more abundant power are expected to emerge.

Indeed, since the start of 2024 Savills has tracked over 415 acres of land deals to data centre operators. Nearly all of these sites have previously been promoted for industrial and logistics use and combined could have delivered 8.3m sq ft of warehouse development, assuming normal development densities. Should this trend continue, the speculative pipeline for warehouse space will decrease, which, in turn contains the vacancy rate and ultimately will be a positive driver for continued rental growth in the industrial and logistics sector.

Data centre demand and capacity is set to grow



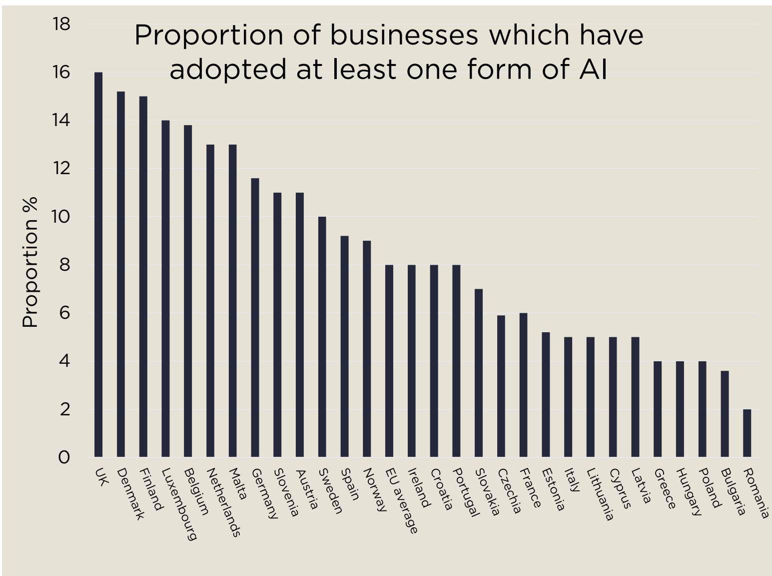
Source Savills Research based on TeleGeography

According to Savills latest research, AI-related companies are expanding rapidly across European cities, among the most quickly in Central London, upsizing at rates of up to ten times existing floorspace, as they compete to hire the best talent.

AI will provide a productivity boost as lower-skilled tasks, such as clerical/administrative jobs, will be replaced with higher-skilled roles which will utilise AI to improve efficiencies. We believe that the 'AI effect' will have a negative, but modest, impact on office-based employment, although we think this will be outweighed by the medium-long-term structural shift to service sector employment, supporting demand for office space. The extent to which will depend on how quickly, and to what extent, businesses are willing to trust AI-generated outputs.

To read more on this topic please click here.

AI-related companies expanding rapidly



Source European Commission, ONS

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

Kevin Mofid
Director
Commercial Research
020 3618 3612
kmofid@savills.com