



Towns Conference – Break Out Session

Market Movements

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Department for Levelling Up,
Housing & Communities

**Towns[®]
Fund** 
Delivery Partner





Agenda

1. Introduction
2. General Outlook
3. Key Trends
4. Summary



1. Introduction



Danny Collins Director, Economics

Danny is a Director of Economics at Savills with over 17 years' experience of economic analysis in a property and development context, including town centre regeneration and master planned development projects. Danny provided property advice as part of the Town Fund Delivery Partner commission, and has supported many towns with their transformational growth strategies. A Business Case specialist and land value uplift analysis expert, Danny has supported many places to secure Housing Infrastructure Funding (HIF), Future High Streets Funding (FHSF), Town Deal, Levelling Up Funding, and Brownfield Land Funding. Danny recently led the team in developing the West Bromwich Town Centre Masterplan, which received the 'Award for Plan Making' at this years Planning Awards. He has also supported towns as diverse as Crosby, Bootle, Bolton, Newark, Milton Keynes, and Redcar with their plans.

Core Economics Services

Impact Assessments / Social Value	Strategy and Research	Business Cases and Funding bid	Market Analysis	Growth Strategy/Viability
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Wider Savills Services

Planning	Development	Town Centre, Out of Town Retail	Research	CPO
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1. Introduction

Overview

- UK property markets are changing rapidly, with transformation of a number of industries leading to changing demand patterns, changing ways of working, as well as increasing affordability pressures and demand for housing.
- Development plans must consider the market now, but also how it may change in the future; what are the opportunities; and how can we plan for flexibility to ensure schemes are deliverable and sustainable.

Session Objectives

- This session will provide a board, high level overview of national trends in the retail, leisure, office, and logistics markets.
- These are complex markets, and local factors can be significant, but this session aims to provide a broad update that can help Towns consider how their plans align with some of the more fundamental changes in the market.

Key Questions

- Key questions this session will help Towns to answer include:
 - Do our plans align with the fundamental changes in the market?
 - Do recent changes create opportunities for us to rethink our plans and capture growth?
 - Are our plans sustainable considering potential future market directions?

2. General Outlook

Savills UK Cross Sector Briefing 2023

Key economic assumptions for 2023

01

**Interest rates and inflation
will still dominate narrative**

Inflation past the peak
BoE focused on labour market
Market volatility to persist

02

**Mild recession followed by
slow recovery**

Acute cost of living crisis
Tight policy environment
Wider global slowdown
Supply-side weakness

03

**Risks remain skewed to the
downside**

Labour market resilience
Policy errors
Housing market
External shocks

2. General Outlook

Savills UK Commercial Market in Minutes Update – June 2023

- In general, yields are up, but not as much as during the GFC
- But there are low volumes of activity and low deal count
- With worst investment volumes since the GFC



c. £14bn

Commercial investment volumes in the first half of 2023 will be the worst H1 since the GFC in 2009



1 sector

City Offices was the only sector to see a yield shift in June (+25 basis points)

Savills Prime Yields

	May 2022		April 2023		May 2023
West End offices	3.25%	↓	4.00%		4.00%
City offices	3.75%		4.75%		5.00%
South East offices	5.25%		6.50%		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%		5.25%		5.25%
Retail warehouse (Restricted)	4.75%		5.75%		5.75%
Foodstores (OMR)	4.25%		5.00%		5.00%
Industrial/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%

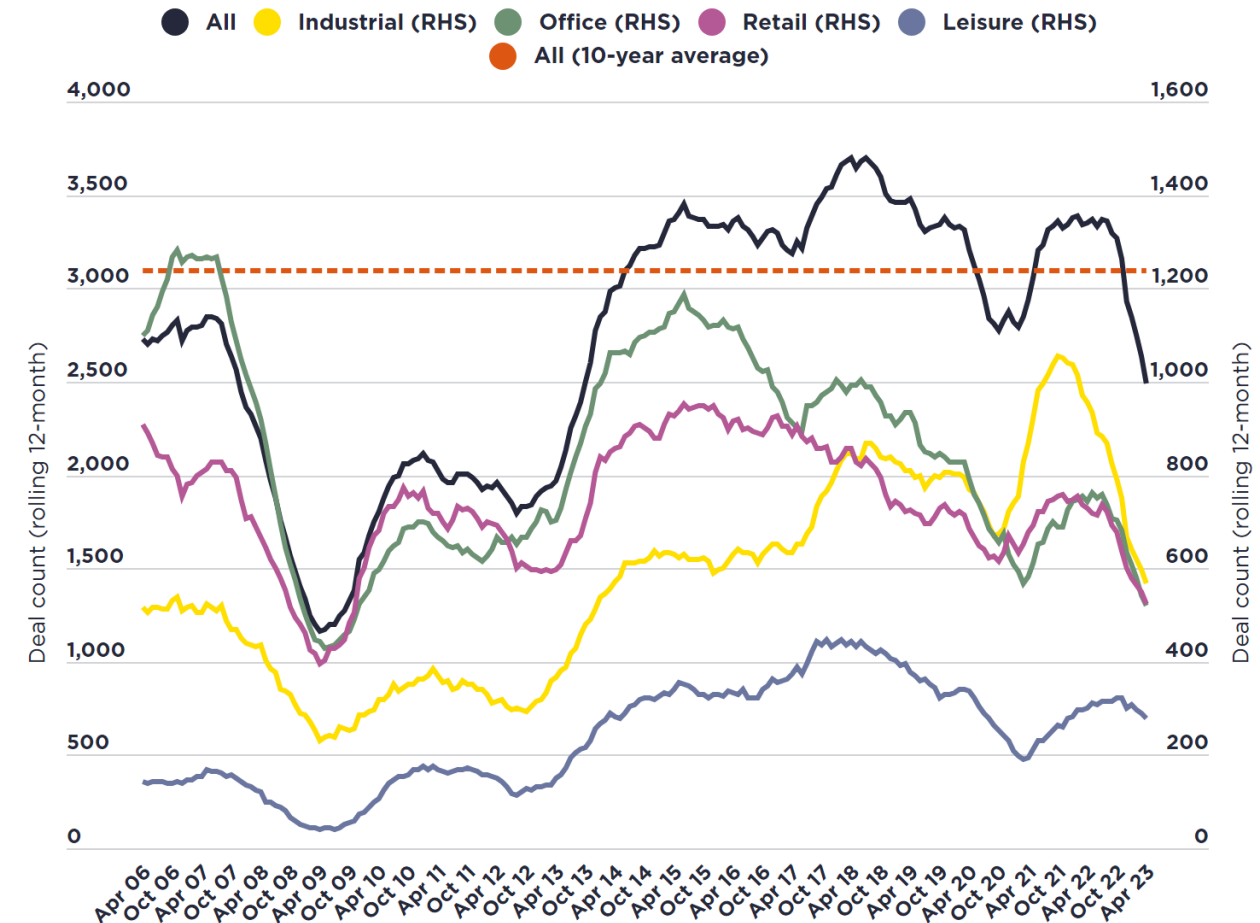


2. General Outlook

Savills UK Commercial Market in Minutes Update – June 2023

- Reduced transactional evidence is 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 slowdown 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.

Deal activity has slowed but is still well above GFC lows



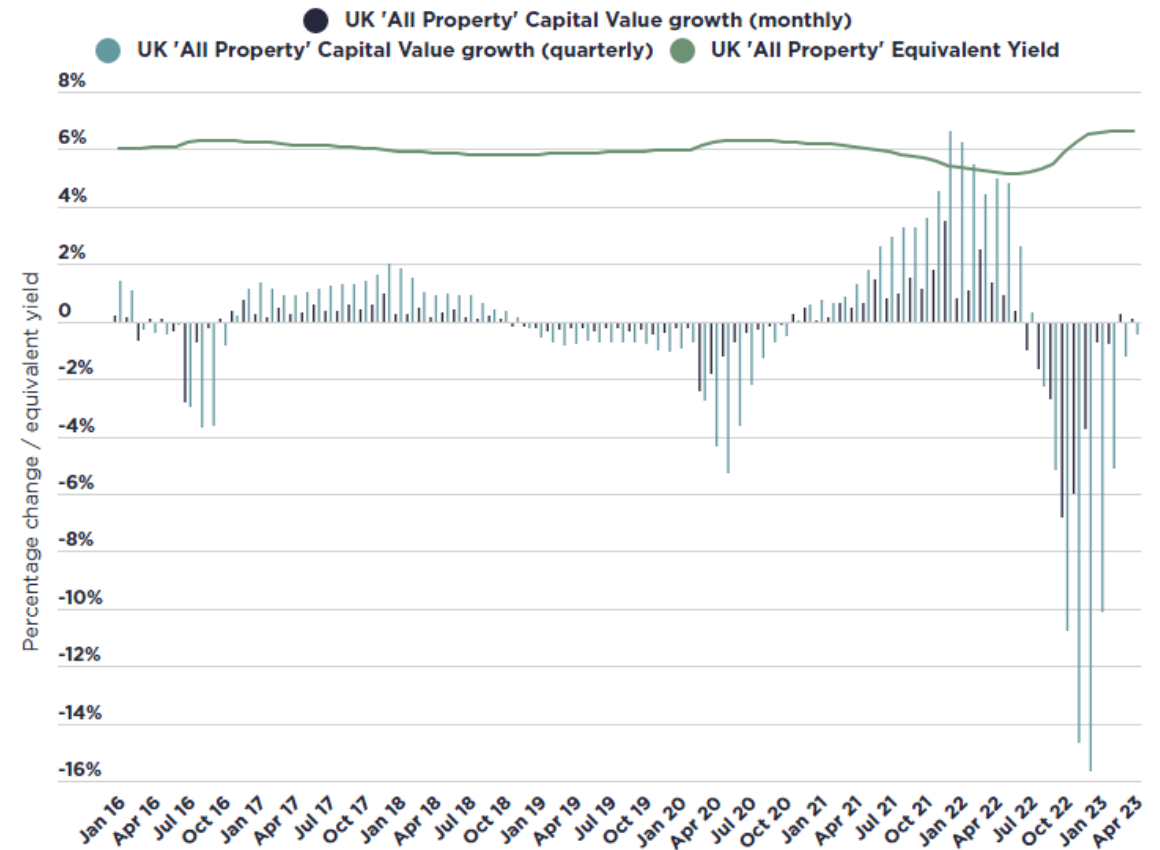


2. General Outlook

Savills UK Commercial Market in Minutes Update – June 2023

- Higher interest rates and persistent inflation dominates sentiment
- UK has shown better than expected economic performance
- Bank of England no longer expects recession this year
- Over the last 12 months there are encouraging price movements
- There is a slow down in values falling
- Continued volatility in debt and gilt markets makes decision making difficult for investors
- Looks like more rises before rates fall

Monthly 'all property' capital value growth has turned positive again. Average equivalent yield is over 6.6%. Does this mark the beginning of rising values?

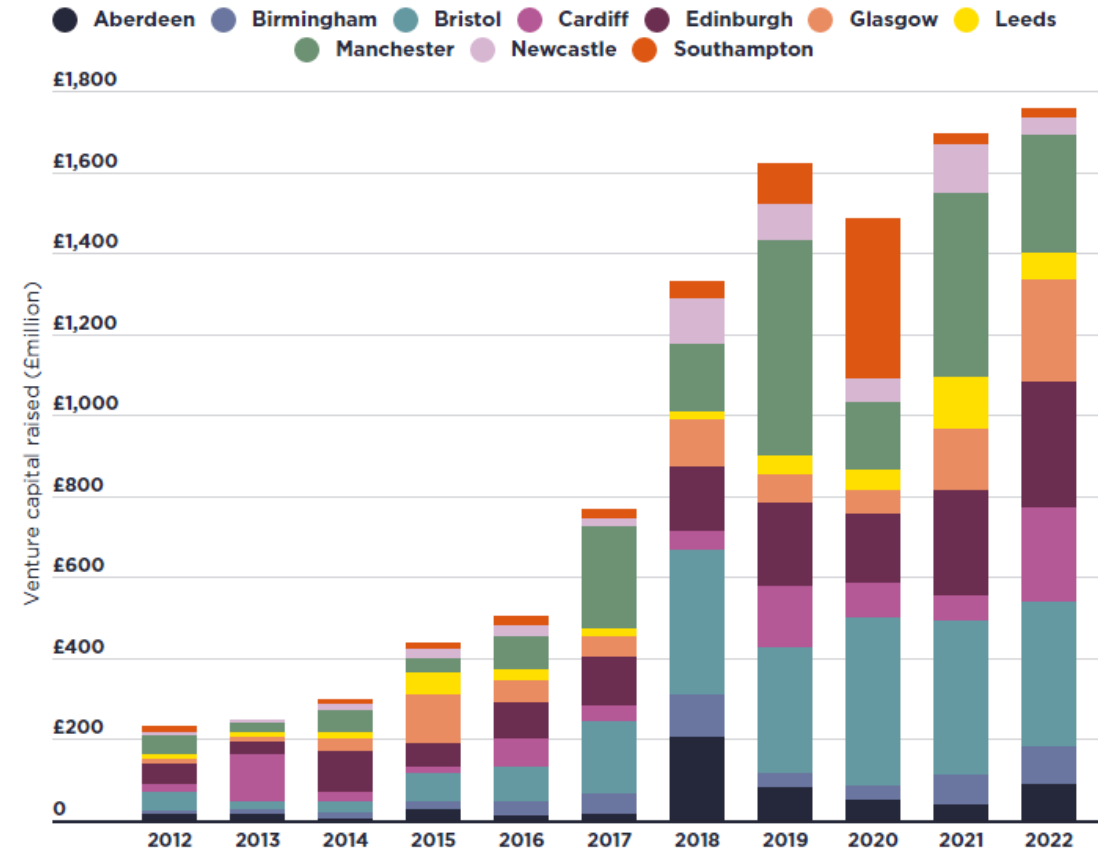


2. General Outlook

Savills UK Commercial Market in Minutes Update – June 2023

- Raising of VC is a lead indicator of real estate demand
- Generally more of a focus for science sectors
- Chart shows VC raised in companies headquartered in the ten largest cities
- A total of £7.9bn in VC has been raised in last 5 years
- This leads to more employees, more space needed, more research and development and innovation
- Universities and their spin out activity should help grow the next round of companies that require VC.

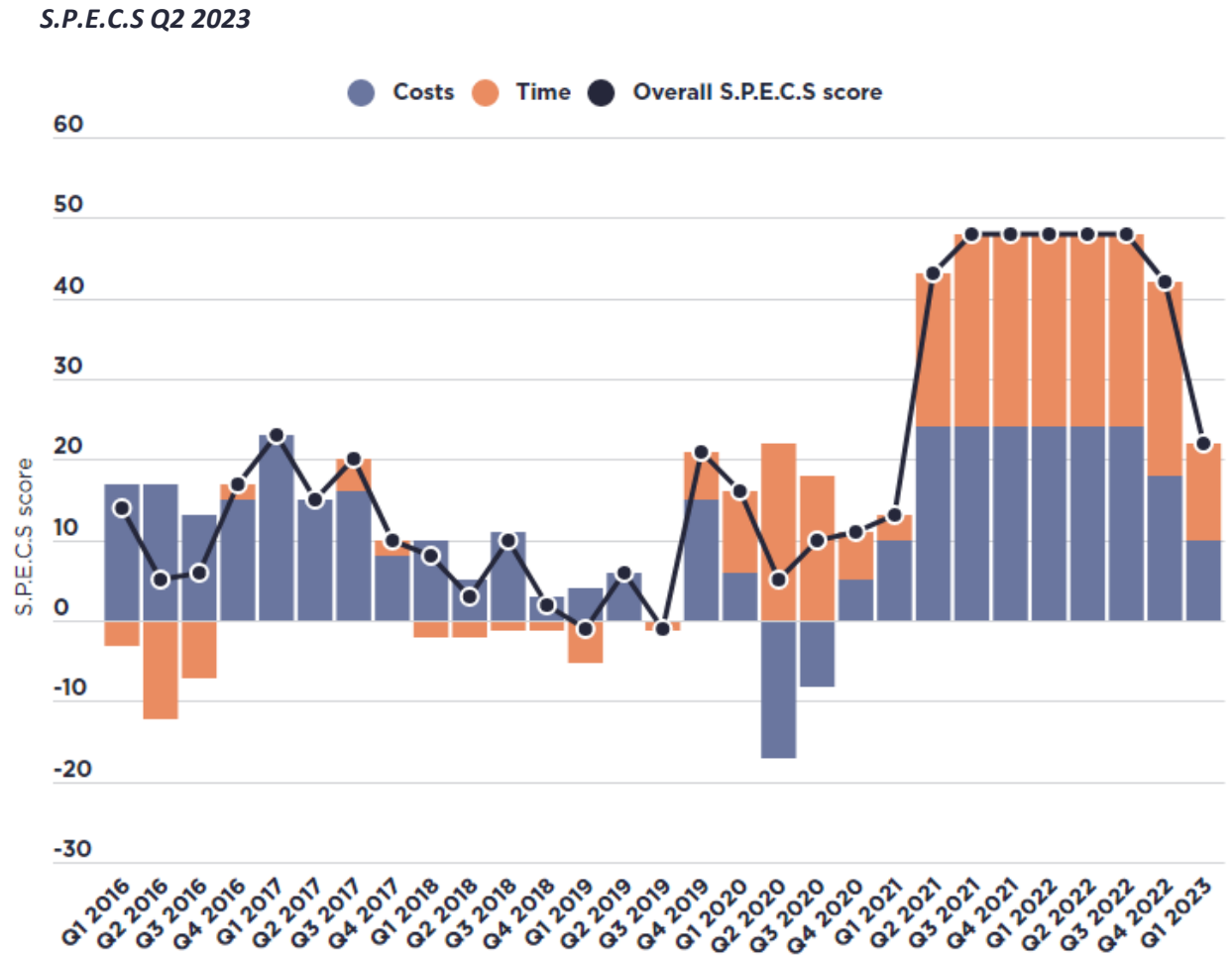
VC Raised will help drive demand higher



2. General Outlook

Savills ProgrammE and Cost Sentiment (S.P.E.C.S) – June 2023

- Early signs of price stabilization
- UK remains volatile and unpredictable
- Avoided recession and post growth of 0.4%
- But inflation remains stubbornly high and CPI fell less than expected
- Further rises in base rate inevitable
- Contractors are starting to reduce costs on long term projects
- This results in the lowest SPECS score since Q1 2021
- Suggests stabilisation but its not uniform

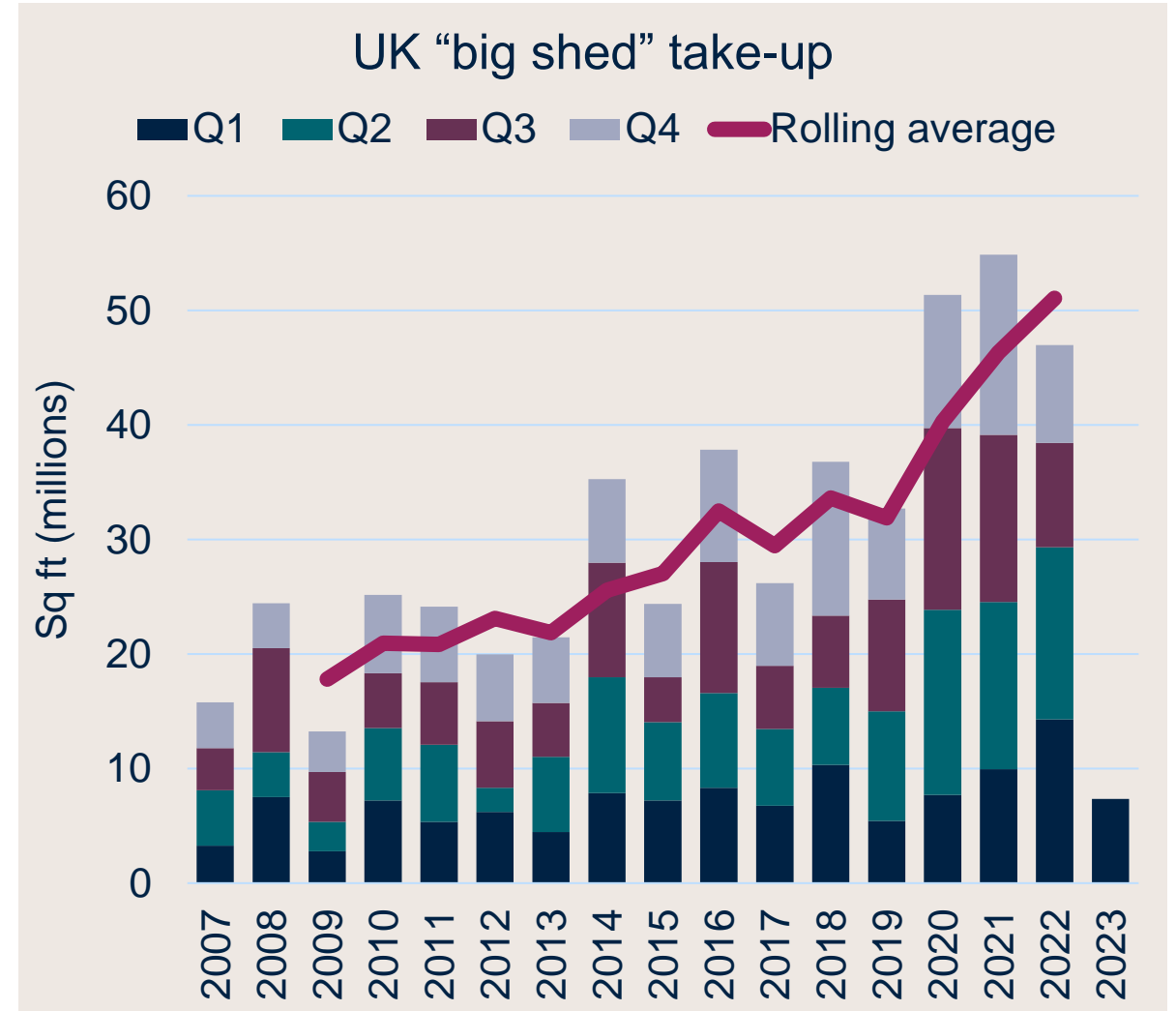




2. General Outlook

Logistics Market

- Recession and elevated development pipeline to push up vacancy in 2023
- Brexit, online retail, and on-shoring to support demand thereafter
- Vacancy rate back to 4% in 2024
- Prime rental growth to average 6% pa
- Challenging EPC Outlook





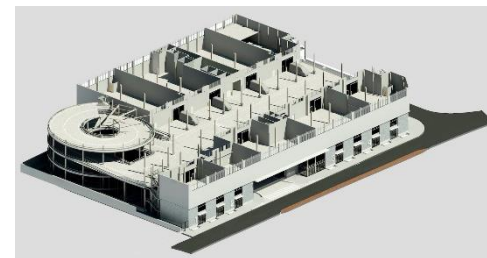
2. General Outlook

Example – High Street Logistics

Industria, Barking

Industria is one of a new generation of urban industrial buildings that are integrated within mixed-use townscapes and provide high-quality urban design, as well the amenities to support local neighbourhoods and to attract and retain skilled workers. It seeks to catalyse long-term change in the local economy and townscape, supporting the creation of new markets and of a working community where interaction, sharing ideas and problem solving help drive the new economy. The project represents an exciting new industrial typology for the UK that has the potential to be of national significance in this field.

The building will deliver around 10,000sqm of industrial space across 45 SME and Flatted Factory units of varying scales, achieved through stacking vertically and, importantly, providing vehicular access to upper floors by a helical van ramp that will allow tenants to service their businesses directly.

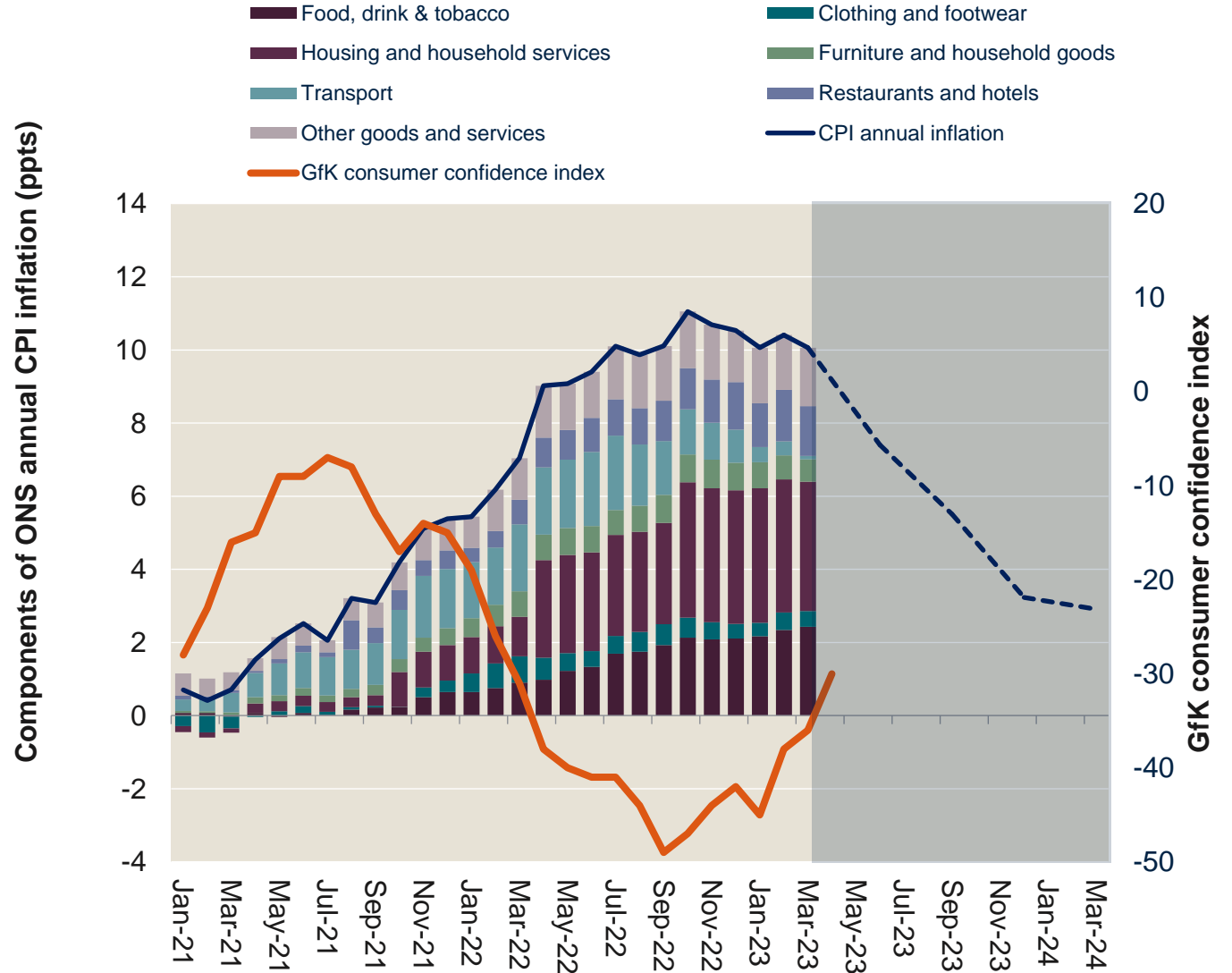




2. General Outlook

Retail Outlook

- Headline rents are still rising
- Consumer slowdown will push up vacancies in some locations, but generally they are coming down
- Retail yields were already pricing in a lot of risk before this latest crisis
- Foodstores, retail warehouses and commuter locations will outperform
- Priced for repurposing or opportunism, but who will be the buyers as prices rise?

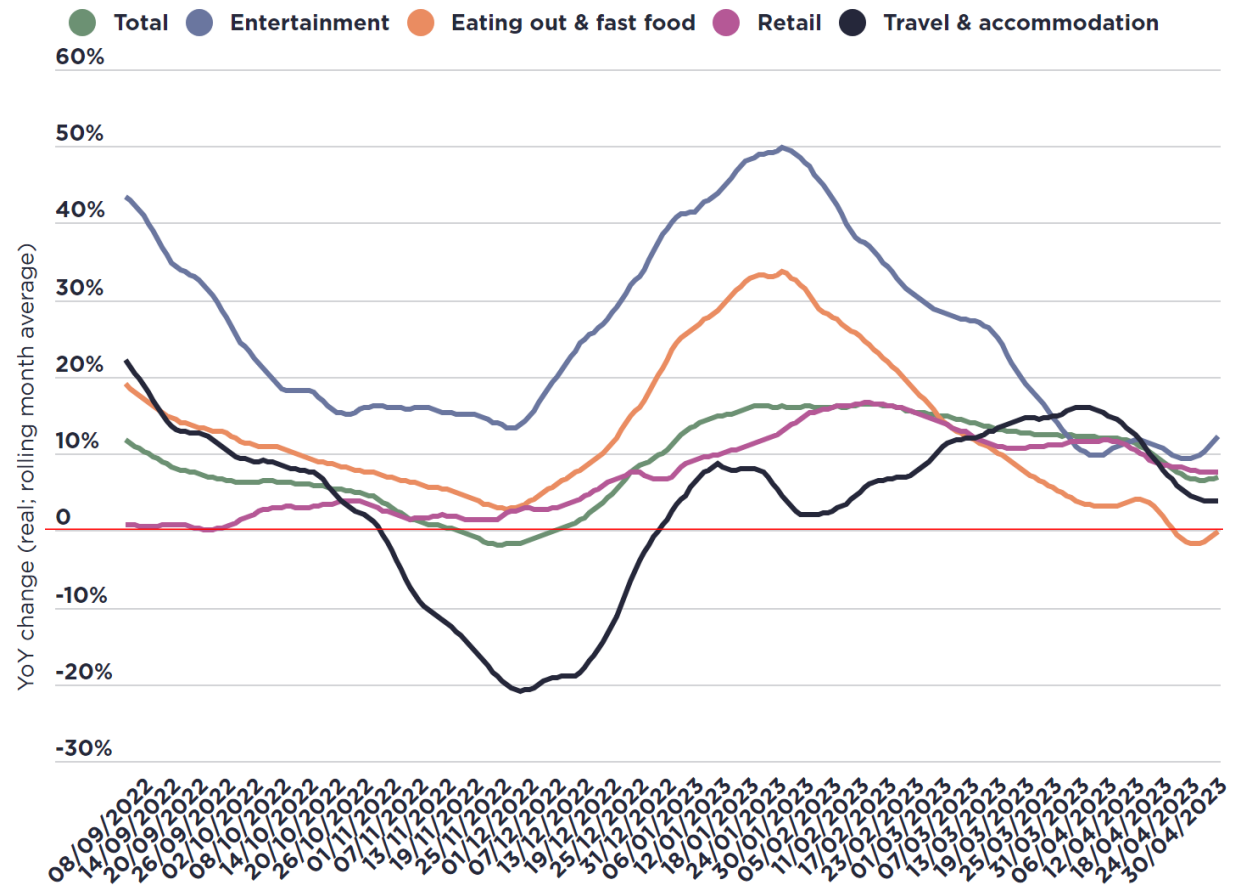


2. General Outlook

Retail Outlook

- 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 suggesting that the cost of living crisis started to impact these discretionary categories.
- Year-on-year spend on eating out moved into negative territory in the early part of April, down -1.7%.

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





2. General Outlook

Office Outlook

“Nobody is going back to the office”

“Agile working, bank failures, and the tech downturn are combining into a structural shock to demand”

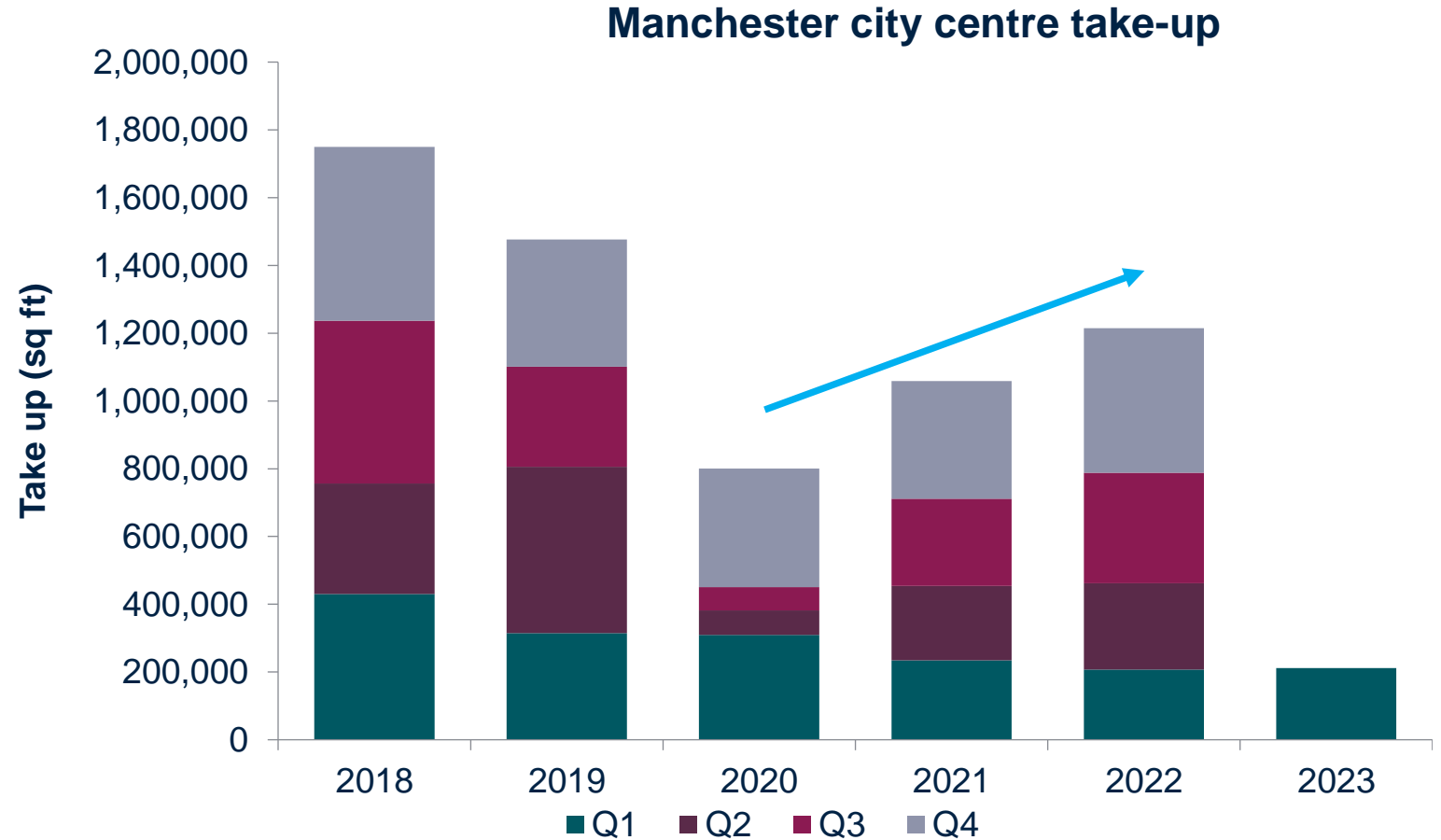
“The road to zero carbon will leave us with lots of stranded office assets”

There are definitely challenges to office demand from agile working, but they are being overstated

2. General Outlook

Office Outlook

19%
Increase in average
Manchester office
occupancy compared to
May 2021

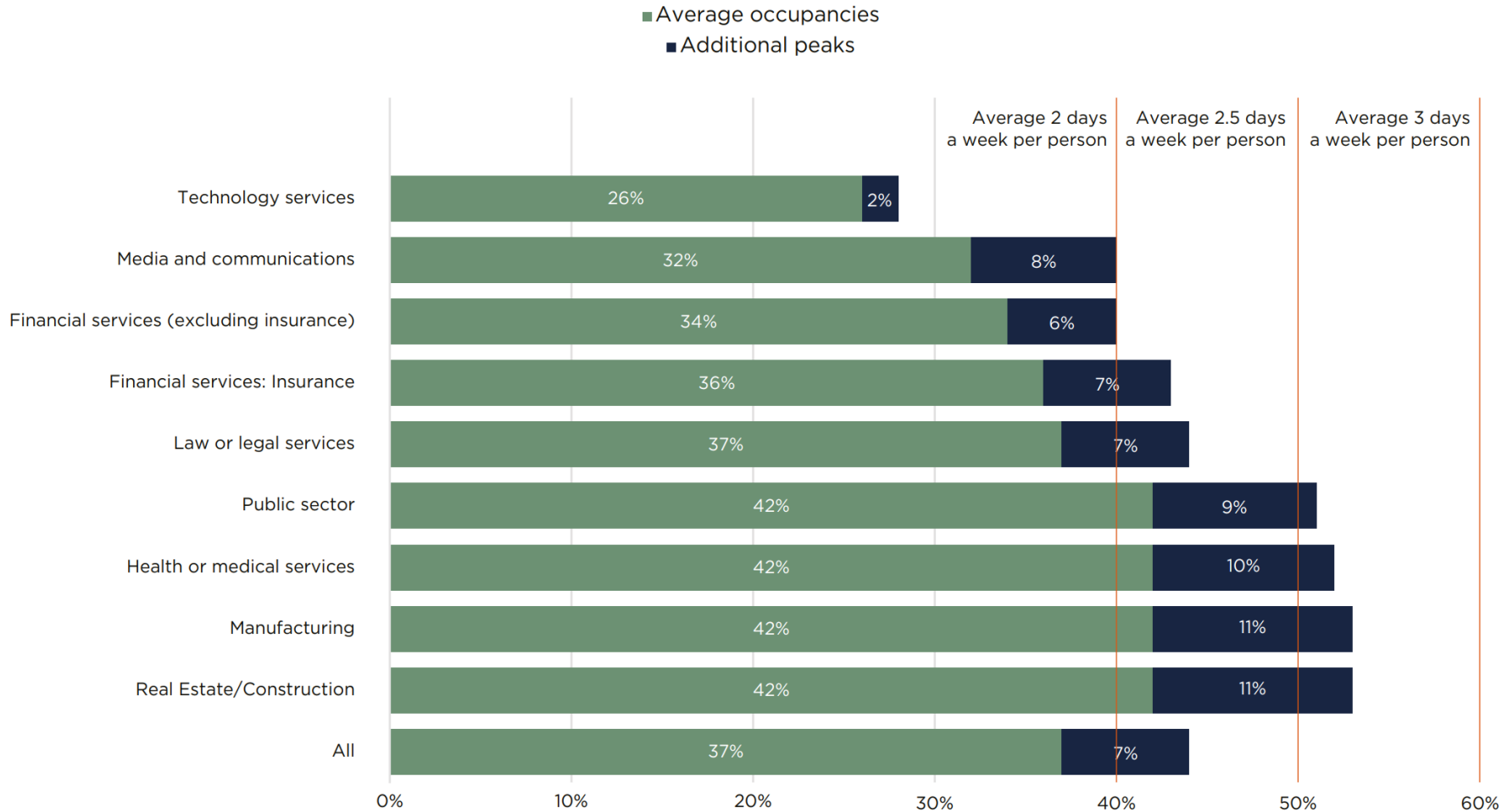


2022 take-up represented a 51% increase on the Covid low of 2020

2. General Outlook

Savills European Office FiT Survey - 2022

Average workplace occupancies based on preference for number of days working remotely

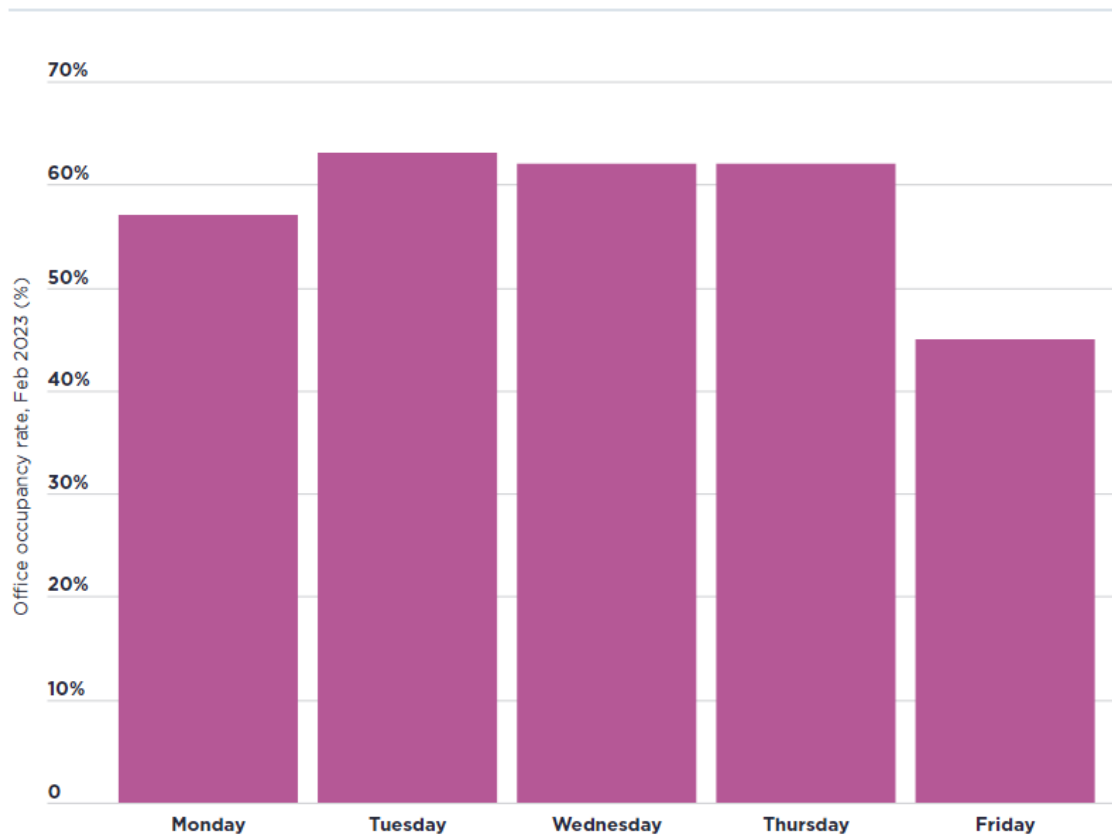




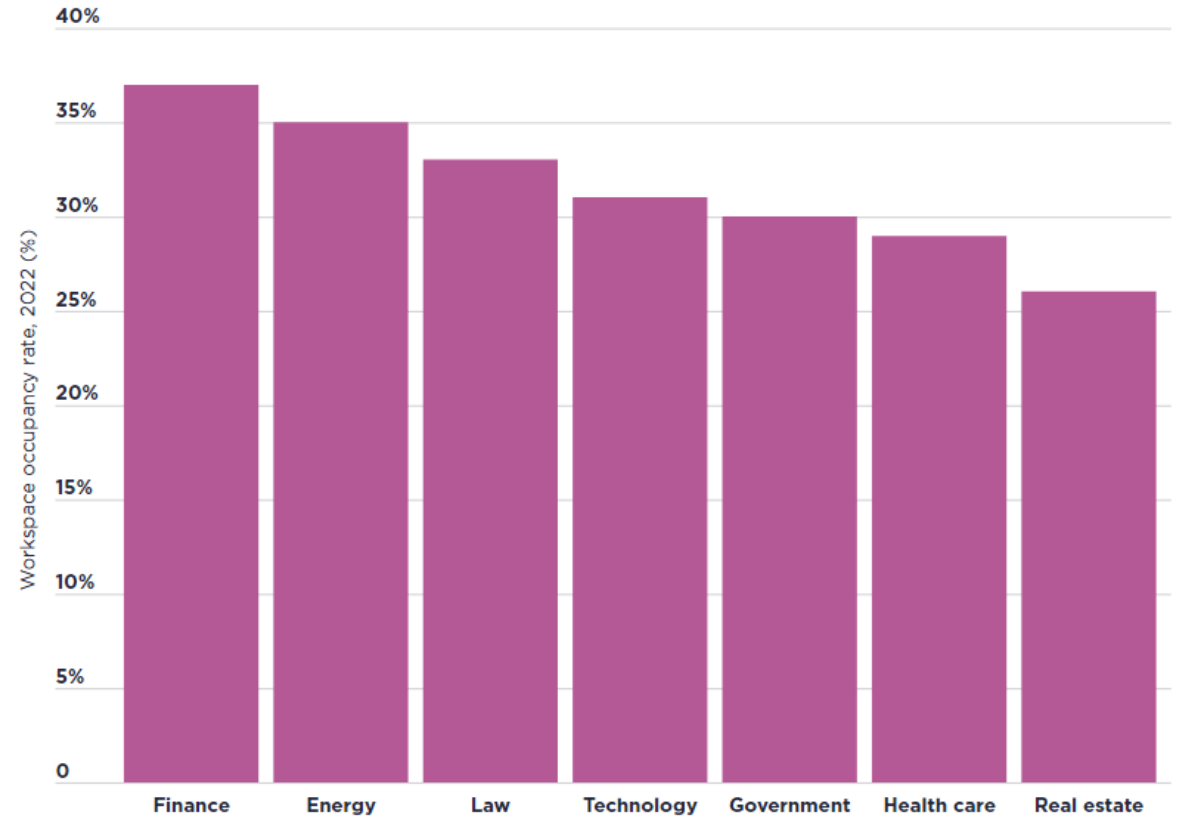
2. General Outlook

Savills European Office Occupancy Spotlight - 2023

Average daily occupancy rates



Occupancy by sector

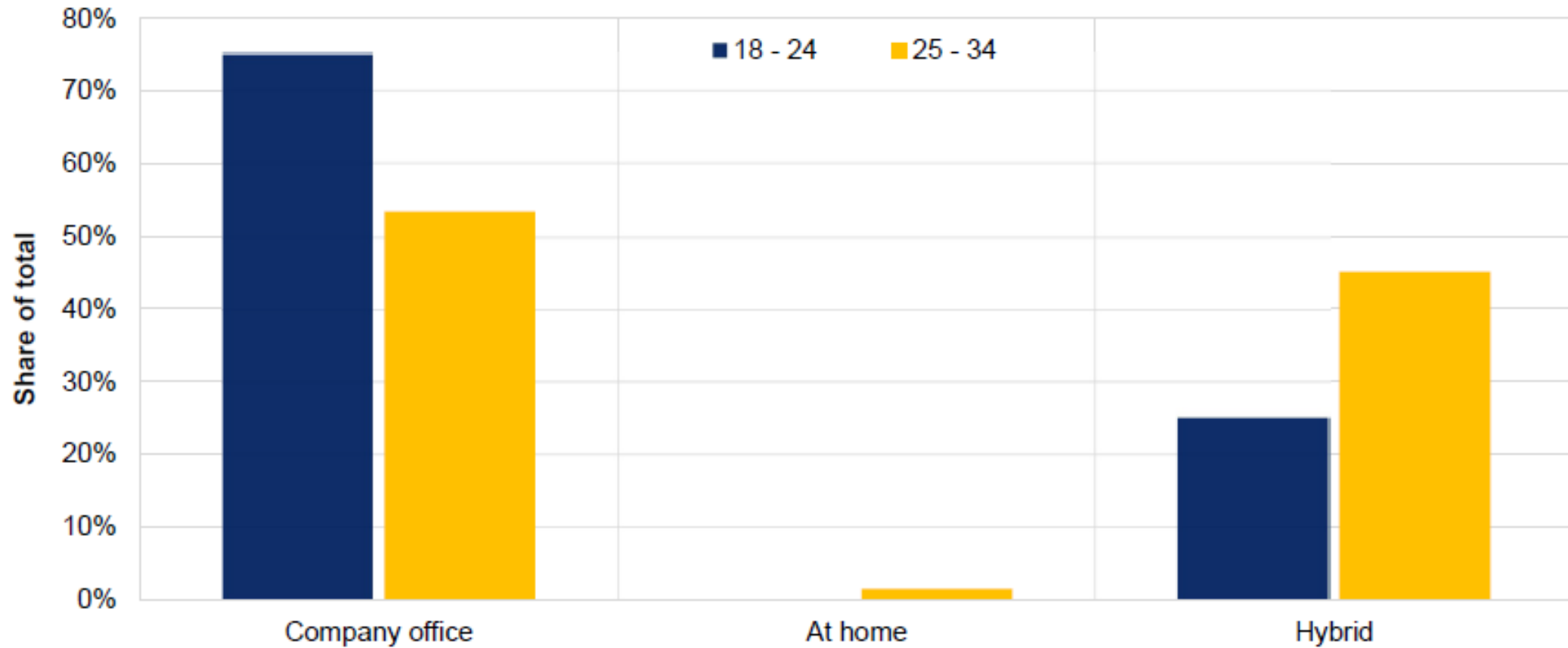




2. General Outlook

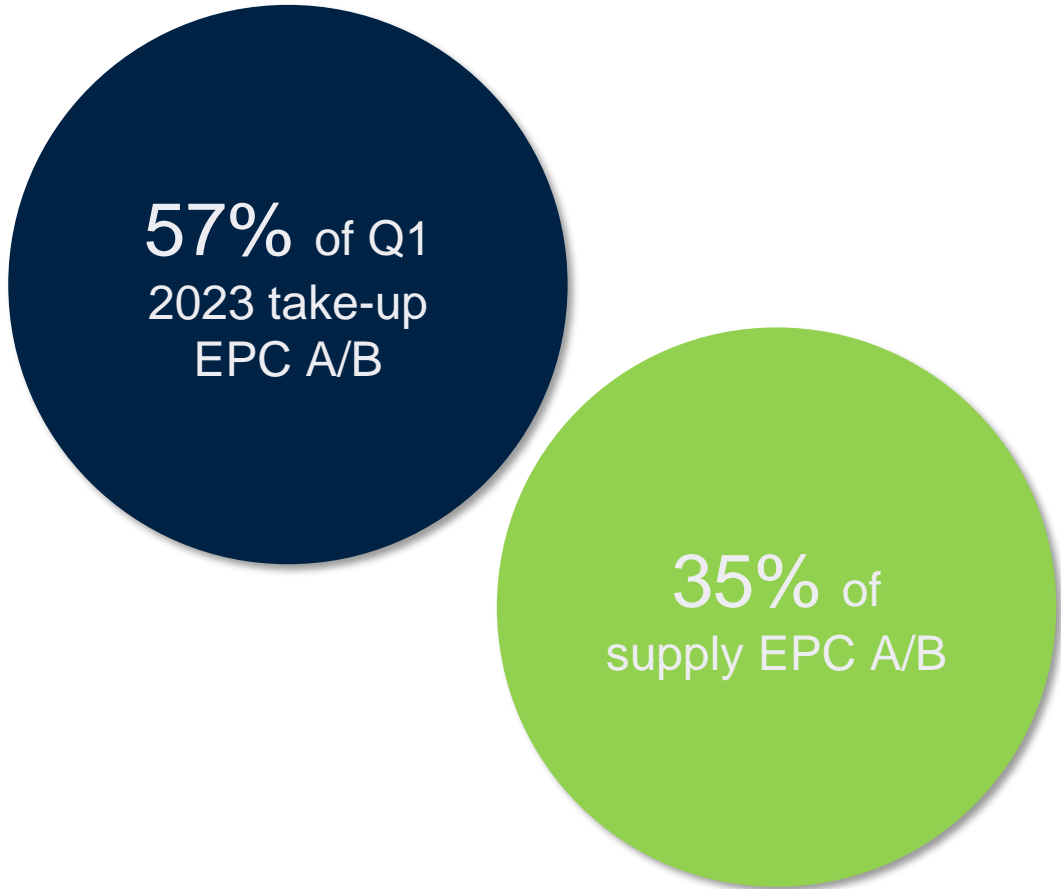
Office Outlook

Career Advancement – best achieved where?

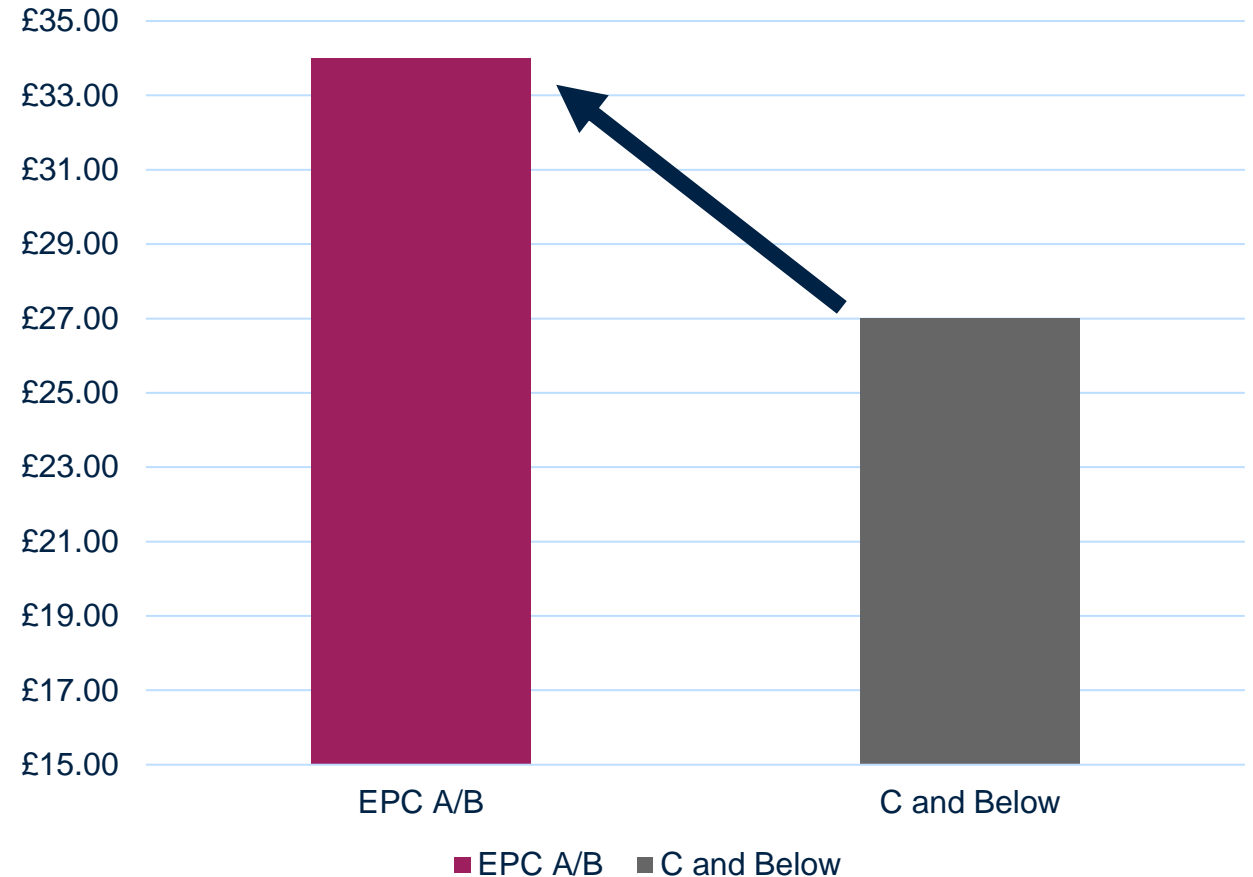


2. General Outlook

Flight to Quality



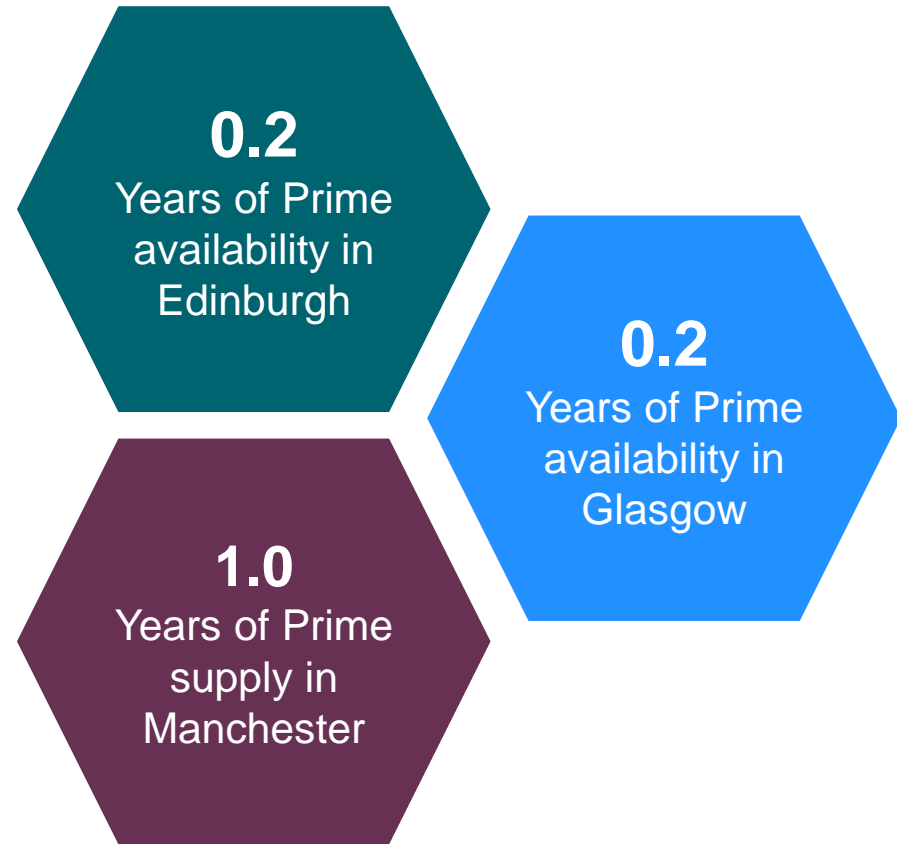
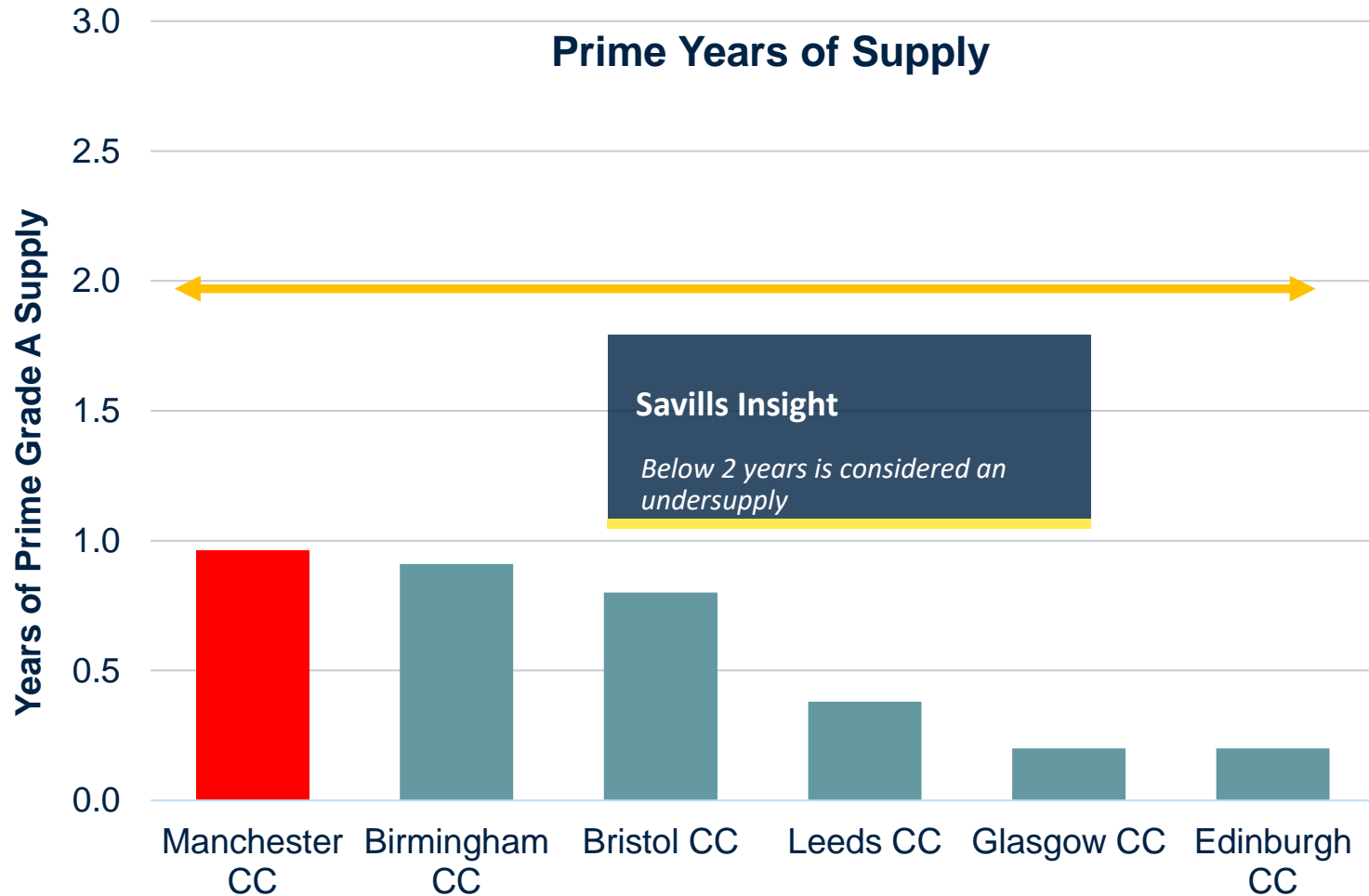
Average Manchester Rent Q1 2023



2. General Outlook

Office Outlook

There is currently a severe undersupply of Prime availability in the regional markets





3. Key Trends





3. Key Trends

Breaking the cycle

- Talent follows opportunity
- Opportunity follows talent
- Where to start
- Build on strengths
- Respond to a range of opportunity
- Identify how we can intervene, where we need others to intervene and how

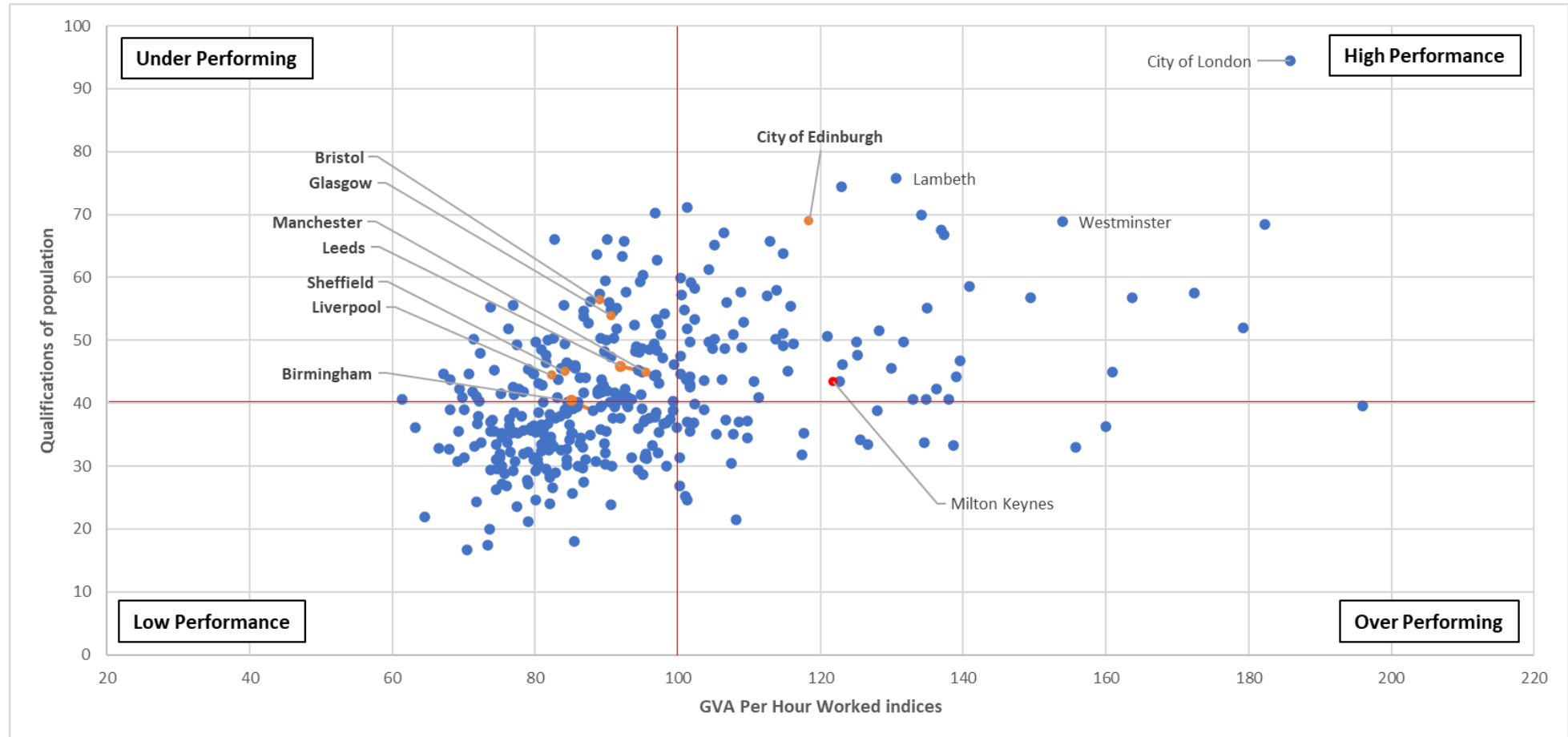




3. Key Trends

Importance of economic diversity

- Potential for talent mis match, with high skilled people taking elementary roles
- Restricts access to job market for low skilled people and undervalues labour

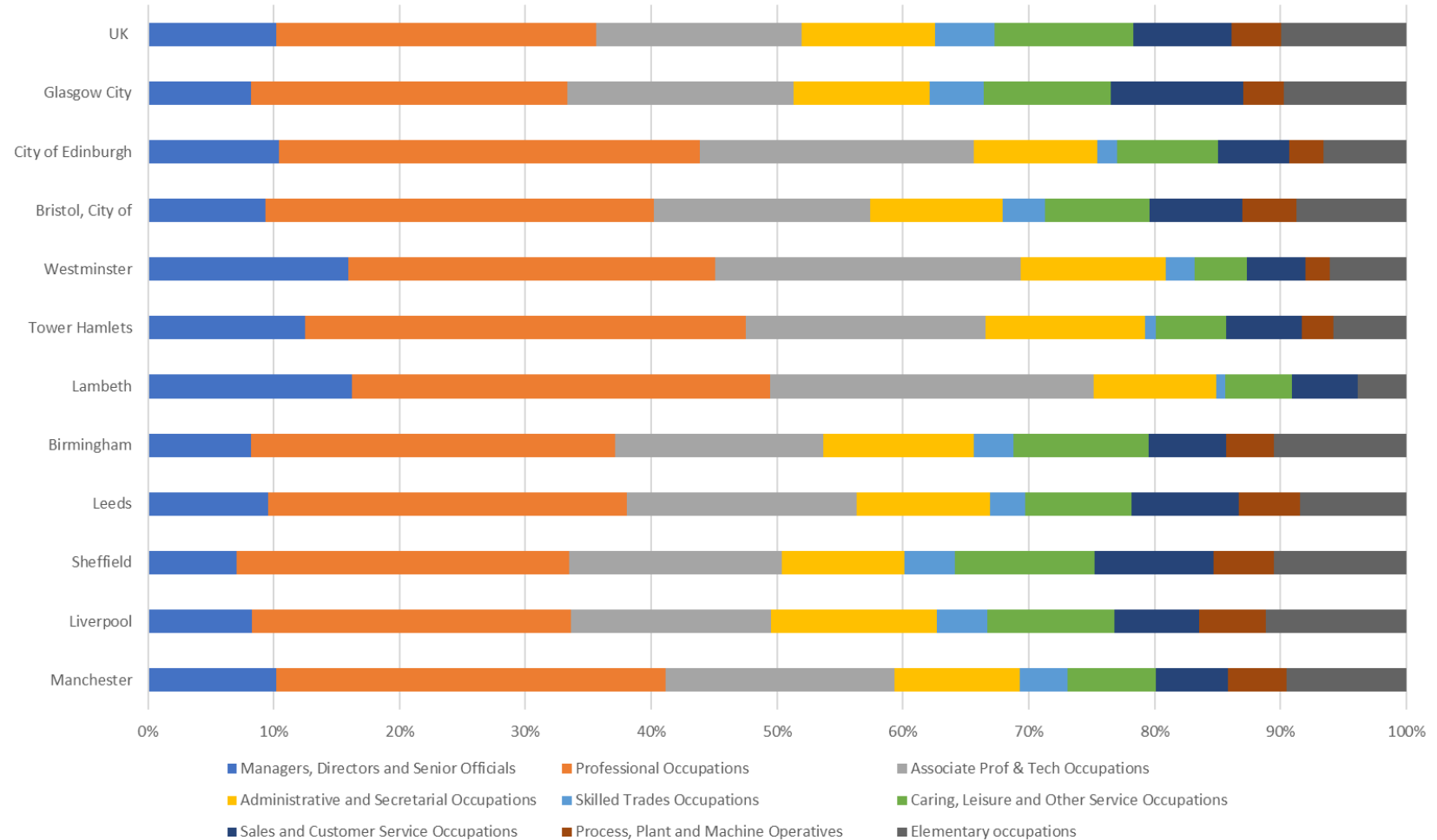


3. Key trends

Importance of economic diversity

- Diversity of economic opportunity key to retaining young skilled people and attracting skilled in migrants
- DLUHC Levelling Up White Paper: Talent is everywhere opportunity is not

Share of Employment by Occupation in 2021-2022





3. Key Trends



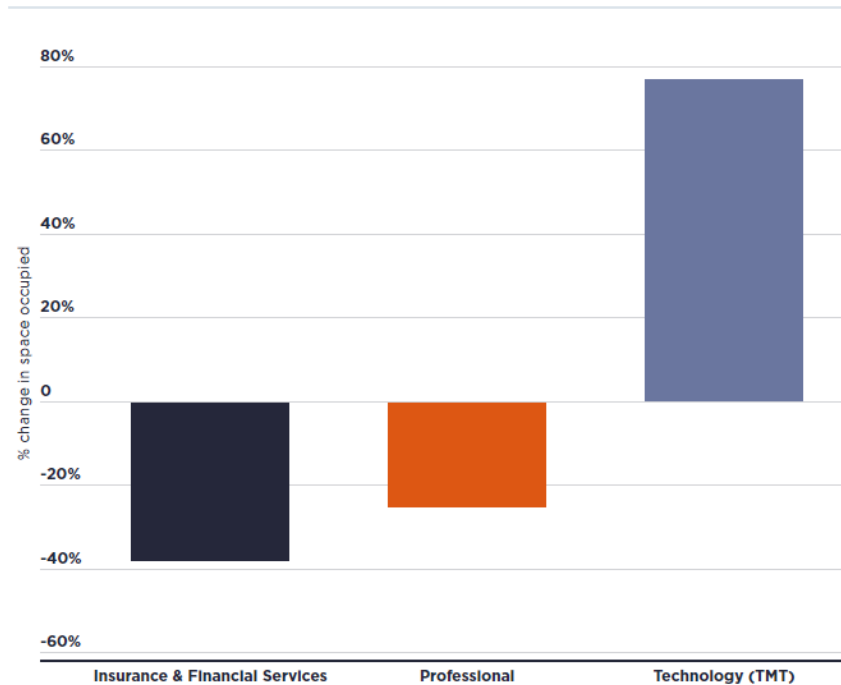


3. Key Trends

- Education – Universities / spin outs
- Science tech and innovation – tapping into VC raised
- Meanwhile uses – building sense of place and adding social value

Savills: Office capital values over 50% higher in cities that are home to a top university

Tech sector leading the way in office space demand





4. Summary

- High interest and inflation dominates sentiment
- Deals and investment is down
- Many investors in 'wait and see' mode
- But lots of capital to invest when time is right
- Logistics doing well
- Retail and leisure struggling due to cost of living issues
- Office resilient and opportunities in various markets – flight to quality dominates
- There are common patterns for most of our places, how to retain young skilled people, how to attract skilled people, how to attract the best opportunities
- Need to build on our strengths but also consider a range of opportunities
- Economic diversity is key for sustainable growth
- Amenity, placemaking, and quality of place essential

