

CBRE

Intelligent Investment

# UK Real Estate Market Outlook 2024

REPORT

REAL ESTATE

CBRE RESEARCH




# Contents

- 01 **Economic Outlook**
- 02 **Investment**
- 03 **Sustainability**
- 04 **Office**
- 05 **Industrial & Logistics**
- 06 **Retail**
- 07 **Residential**  
(Residential Sales, Build-to-Rent, Affordable Housing, Purpose-Built Student Accommodation)
- 08 **OPRE**  
(Senior Living, Hotels, Healthcare, Leisure, Food & Beverage, Self Storage, Roadside & Automotive)
- 09 **Data Centres**
- 10 **Life Sciences**



# Introduction

---



2023 has been a challenging year for real estate due to persistent inflation and a 15-year high in interest rates, both of which negatively impacted economic growth. This led to plummeting volumes of commercial real estate (CRE) investment, which hit a decade low, as investors grappled with declining asset values and increased borrowing costs. Yet while 2024 will likely start the same way, there is more to be optimistic about. The inflation rate significantly fell towards the end of 2023 and is expected to continue its downward trajectory. Although we anticipate base rates to stay high for an extended period, there is the real prospect of rate reductions in the latter half of 2024, which would be advantageous for both occupiers and investors, and should stimulate increased activity.

The forthcoming general election is likely to be a major focal point in 2024. The Conservative party are currently trailing in the polls and are determined to increase its ratings. This could potentially involve introducing some beneficial tax changes in the Spring Budget. In addition to politics, sustainability will be a key concern in 2024. We expect a sustained shift towards flight to quality, with the most energy efficient assets being highly sought after. The understanding of AI will accelerate over 2024 and its adoption will grow, which will help enhance efficiencies in the real estate sector.

Continue reading to learn more about the prospects for real estate in 2024.

01

# Economic Outlook

---

The UK economy remains challenging as we enter 2024, with persistent high inflation and stagnant output. However, the backdrop will improve in the second half of the year, leading to a recovery in 2025.

## Key Takeaways

# 01

Inflationary pressures will continue to ease in 2024, driven by further decreases in energy and goods prices, along with softening wage growth and service inflation due to labour market slack. We expect inflation will reach the Bank of England's 2% target by early 2025.

# 02

Reflecting elevated inflation rates, the Bank of England increased its base rate by 500 basis points in the two years from mid-2021. However, since the second half of 2023, UK rates remained unchanged at 5.25%, and we think they have now peaked. In the second half of 2024, the Bank will switch its focus to cutting rates to stimulate future growth.

# 03

The labour market will continue to weaken in 2024 as unemployment rises further and vacancies fall. Wage growth will continue falling from record levels as real income growth is realised, easing pressure on businesses' labour costs.

# 04

Although the UK economy avoided recession, 2023 was still an anaemic year for growth. In 2024, we expect the UK economy to grow modestly and rebound in 2025 as inflation moves towards target, allowing interest rate cuts supporting real income growth.

# 05

There are risks. Households refinancing at higher mortgage rates will reduce discretionary incomes and, consequently, consumption. Geo-political uncertainties persist, with ongoing conflicts in Ukraine and the Middle East make energy prices volatile.



## Nascent economic recovery expected in the second half of 2024

The UK economy remains challenged with numerous headwinds. Most notably, inflation remains elevated. Inflation failed to fall as quickly as expected in 2023 and, as a result, the Bank of England increased rates by 175 basis points to 5.25% over the course of the year, the highest level for 15 years. For businesses, the prolonged period of high inflation has resulted in record wage growth and increased labour costs. This, coupled with the increased debt burden, will continue to erode profit margins, reduce investment, and dampen activity. Weak business sentiment is reflected in the UK PMI surveys, and bankruptcies have risen 25% since interest rates began climbing.

The consumer sector has also been hit. Confidence is well below the long-term average, and spending has been flat. We expect this to continue at least in the first part of 2024, especially as costly mortgage refinancing will remain a drag on the economy. However, we expect inflation to continue to fall in 2024, partly due to lower goods prices.

Figure 1: Key macroeconomic forecast figures

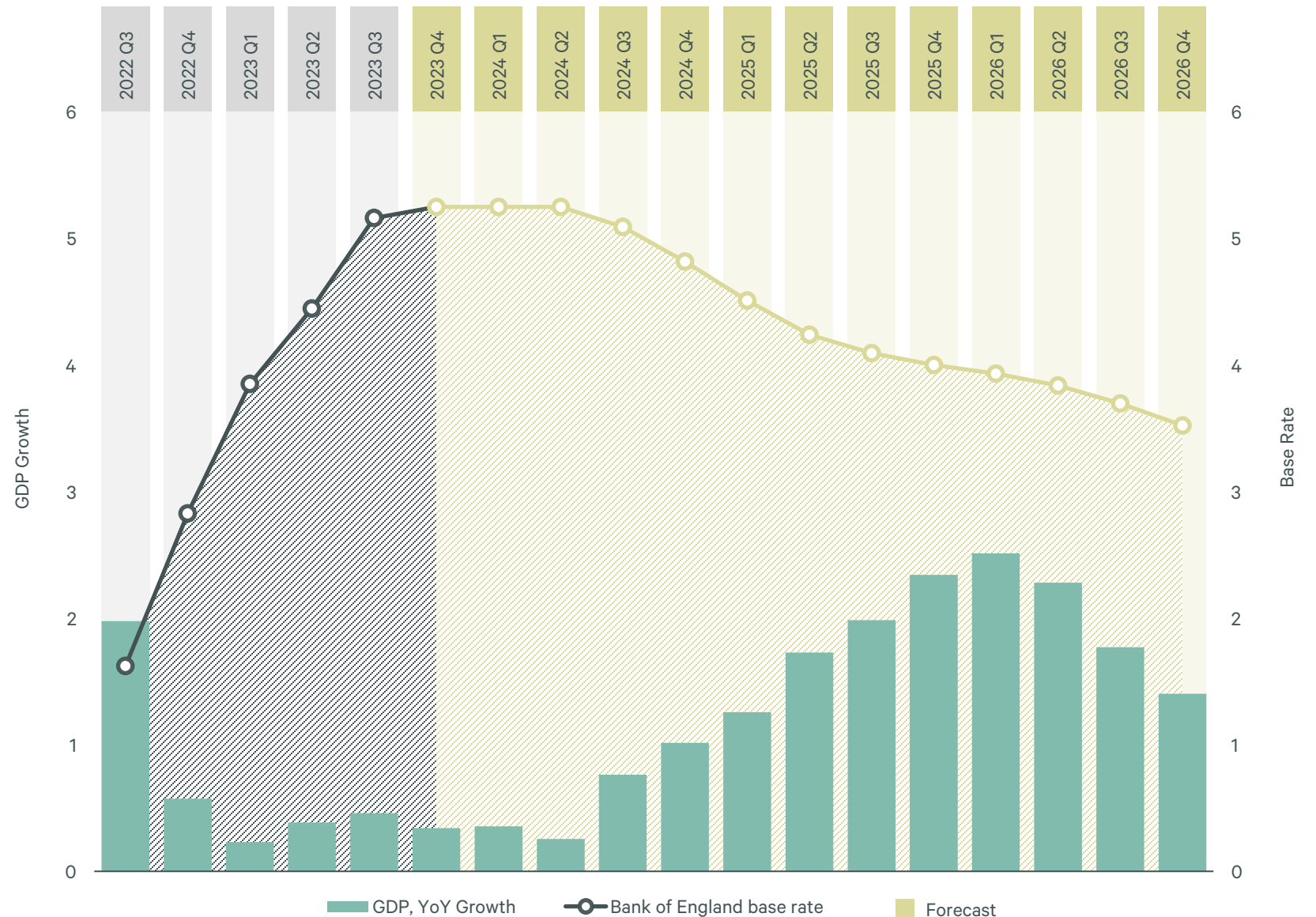
	2022	2023	2024 (f)	2025 (f)
<b>GDP Growth (%)</b>	4.5	0.4	0.6	1.8
<b>CPI</b>	9.1	7.4	3.4	1.7
<b>Unemployment (%)</b>	3.7	4.2	4.6	4.3
<b>Base Rate (%)</b>	2.8	5.25	4.8	4.0
<b>10-year gilt</b>	3.5	4.5	4.2	3.9



As inflation moves towards its target rate, the Bank of England will begin cutting rates. We expect the first cuts in the second half of the year. This will lead to a resurgence in activity from consumers with an increase in real incomes. It will also reduce the debt burden on both businesses and households, further propelling growth.

Apart from the 2% cut to national insurance, no major tax reforms were announced in the Autumn Statement. Still, an election is imminent – the latest it will happen is January 2025, but it is more likely to be in 2024 – and as the Conservatives are currently lagging in the polls, they could introduce policies to stimulate growth in the Spring to enhance their re-election prospects.

Although interest around artificial intelligence is increasing, it remains very much in its embryonic stage. In 2024, we expect companies to start seriously exploring its potential, with gradual adoption and integration into our workplaces taking place. While it should lead to efficiencies and productivity improvements, this is unlikely to feed through for several years. We do not expect to see the large-scale job losses as some are predicting. In fact, in the short-term, there will be employment opportunities in the sector.



Source: ONS via Macrobond, CBRE Research

## Mortgage rollover poses biggest risk to growth

The ongoing rollover of fixed rate mortgages throughout 2024 poses a risk to household incomes, and therefore our outlook for growth. The UK has 10.8 million mortgages, the majority of which are fixed, and estimates show less than half have refinanced onto higher rates. As mortgages shift to higher rates, disposable household incomes fall, reducing their ability to spend, leading to weaker than expected consumption and, consequently, weaker growth. The Bank of England's November Monetary Policy Report estimates that less than half of the expected impact of rising interest rates on GDP has materialised. We expect to see further effects to unfold, which will continue to drag on the economy. Evidence from the Bank of England suggests households have already reduced consumption in expectation of refinancing in 2024.

However, many households currently hold excess savings, accrued over the COVID lockdowns. These equate to circa 5.5% of nominal GDP. There is already some evidence that households have rundown their savings. If others follow suit, this could potentially offset the impact of higher mortgage payments.

There are more acute risks to the forecast, in particular, geopolitical threats associated with the ongoing conflicts in Ukraine and the Middle East, which may undermine our assumptions around falling energy prices. However, our forecasts assume there to be no major economic disruptions from current conflicts or other global events.



“ Two years ago, average house prices were around £263,000. At that time average mortgage rates were under 2% and the monthly payment for an 85% loan would have been around £915. Fast forward and re-mortgaging that same property would now set the owners back £1,367 a month. This level of payment shock will have a clear feed through to households spending ability. ”

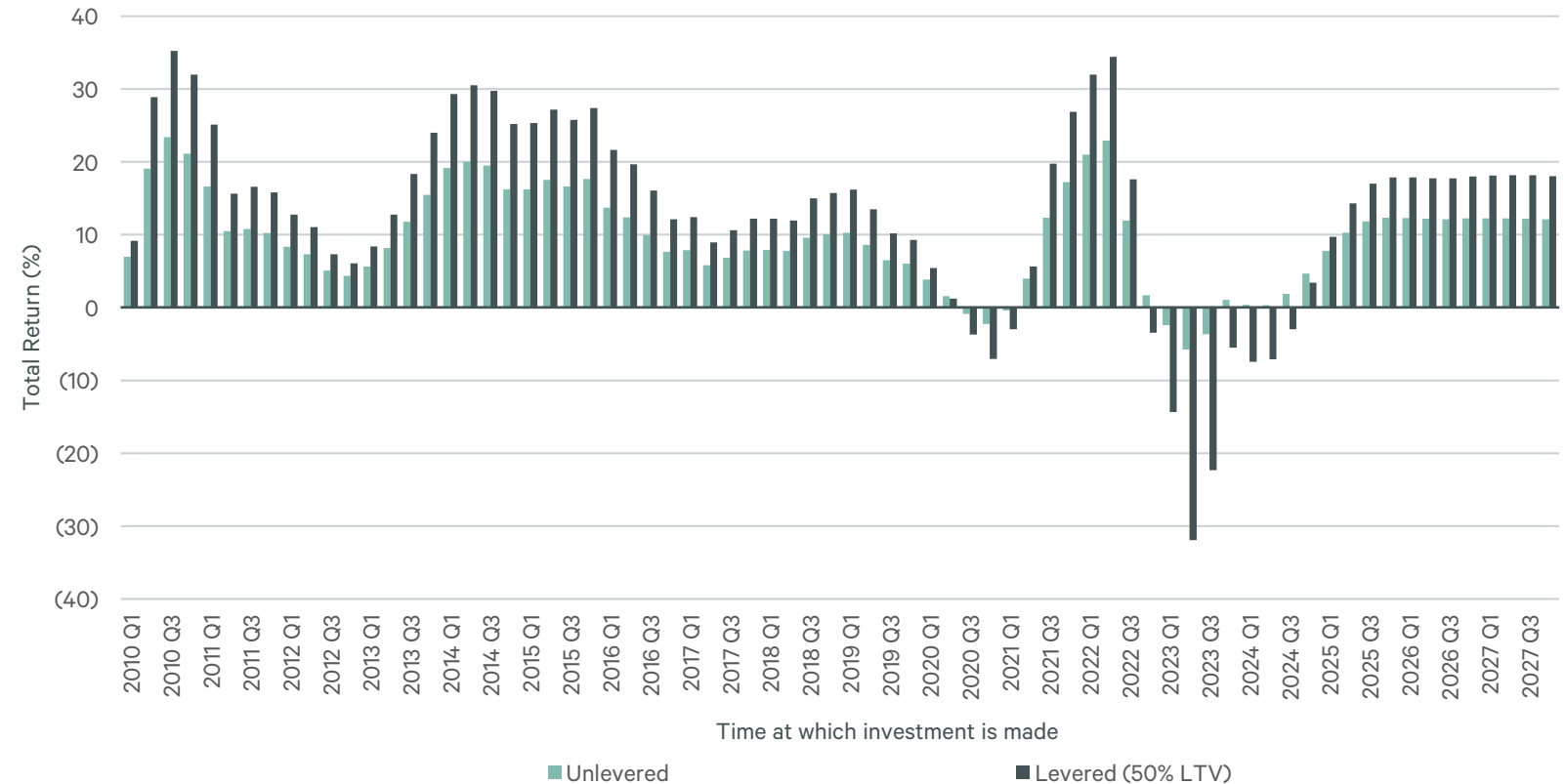
# Commercial real estate more attractive in 2024

Interest rate cuts in H2 2024 will bode well for property yields. After peaking in 2024, these yields are expected to stabilise and compress over the following years, signalling a turning point for values across all sectors. The industrial and retail sectors will benefit from recovering consumer demand as real incomes grow. Prime offices will benefit from a relatively shallow peak in unemployment, as jobs growth continues to surprise on the upside, particularly in London. The residential sector will benefit from continued strong rental growth, due to lack of development activity caused by high borrowing and construction costs.

Our synthetic total return forecasts, net of depreciation and non-recoverable costs, indicate that 2024 will be an opportune year to invest in commercial real estate. Some key considerations:

1. Long rates have peaked in 2023 but yield decompression will continue until at least mid-2024, signalling a turning point for values. However, this will vary by sector.
2. The high interest rate environment, along with falling values, has created a lack of viability for debt buyers and contributed to a thin market; as debt costs fall, this should improve.
3. Equity buyers will benefit from discounted values and based on our forecasts, will be buying at the bottom of the market, benefitting from favourable net total returns.
4. Fewer transactions have made it more difficult to track market pricing. However, as yields decompress further, the mismatch between buyers and sellers will close, with transactions picking up throughout 2024.

Figure 2: UK all property total returns for a five-year investment (illustrative)\*



\*Returns are pre-tax and are based on the CBRE Property Forecasts

Source: CBRE Research

# 02

## Investment

---

Real estate investment markets will gradually recover as the economic backdrop improves, but challenges remain as the market adapts to investing and financing in a higher interest rate environment.

## Key Takeaways

### 01

Investment returns for real estate should improve in 2024, following 18 months of challenging market conditions. While the prospects for yield-driven capital growth appear limited, income returns will underpin an improvement in total returns, and a falling inflation rate increases the likelihood of positive real returns from property investments.

### 02

The divergence in performance across property types is likely to persist in 2024. The industrial and residential sectors are likely to benefit from better near-term prospects for rental growth and a greater investor appetite, while the office and retail sectors will continue to see polarisation based on the quality of assets.

### 03

Obsolescence of older office and retail assets will be a key challenge for the UK real estate market next year. The fall in values and rise in financing costs since mid-2022 will reduce opportunities to profitably refurbish or repurpose older stock until market conditions improve. This could impact progress towards more sustainable, lower carbon investment portfolios.

### 04

Real estate investment activity should increase in 2024 relative to 2023. However, investment volumes in cash terms will take more time to recover as investors trade at lower price levels in the wake of the downturn. Market conditions will provide investors with equity the chance to execute counter-cyclical investment strategies.

### 05

Real estate debt markets will generate further headlines next year as more loans from the pre-pandemic period approach maturity. Higher interest rates will constrain how much lenders are prepared to lend at refinancing, and so some distress will emerge where existing loans cannot be replaced and more equity from the borrower is not available.



# Performance likely to improve in 2024

## INVESTMENT PROSPECTS TO BRIGHTEN IN 2024

Real estate investment performance suffered over the last 18 months as rising interest rates led to yield increases. Investors face challenges from higher borrowing costs and reduced capital flows to the asset class. All property total returns have been low throughout 2023 and all property capital growth has been negative over the year to date.

Despite this backdrop, we expect performance in 2024 to improve. Value declines have stopped in some sectors and slowed in others. Although near-term prospects for any capital appreciation appear limited, income returns will underpin an improvement to the total returns from real estate investment portfolios.

A declining inflation rate will benefit real estate, enabling the asset class to deliver positive real returns once more. High inflation led the negative wealth effect from falling values to be greater than the nominal change would suggest. We estimate that capital values at an all property level have fallen by c. 30% in real terms since mid-2022.

A key trend in recent years has been the divergence in investment performance across property types, as illustrated by Figures 3 and 4 for capital value trends since 2018 and annualised total returns over a one-year, three-year and five-year horizon.

All sectors were affected by the recent downturn, but performance in the office and retail sectors has lagged the industrial sector. While we do not believe this can continue indefinitely, the industrial and residential sectors are likely to benefit in the near-term from better rental growth prospects and a greater investor appetite.

Figure 3: Capital value indices, 2018–23

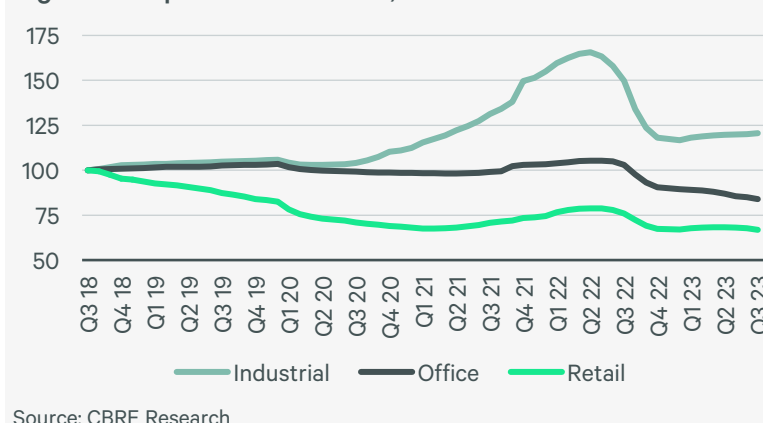
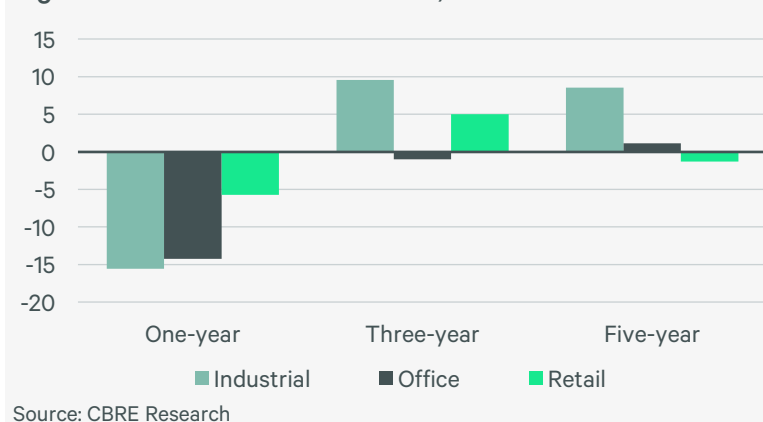


Figure 4: Annualised total returns, 2018–23



## OBSOLESCENCE REMAINS A THREAT FOR OLDER ASSETS

Social and environmental changes affecting the built environment mean the issue of obsolescence is high on the minds of decision-makers, especially those in the retail and office sectors.

Assets that no longer appeal to occupiers or investors, or meet regulatory requirements, because of their age, location, or specification, must be repositioned through either conversion or redevelopment. Such expenditure can only be justified from an investment perspective if expected returns outweigh the costs, including sufficient reward for the risks to investment capital.

Several factors have combined to make the conditions more challenging for addressing obsolescence in 2024. The decline in commercial real estate values means that, currently, the reward from redevelopment is reduced in many cases, while increases in construction costs and interest rates have also put the viability of proposed schemes under pressure.

This will create concerns for investors with more exposure to older assets as it will hamper progress towards more sustainable, lower carbon portfolios. Even if investors do not intend to reposition assets themselves, it will impact the prices that can be realised on disposals until conditions improve.

However, the same factors should benefit existing, prime quality assets, and we could see the value differential between higher and lower quality assets increase further until market conditions allow more stock to be withdrawn and redeveloped or converted in more profitable uses.

# Investors likely to deploy more capital

## INVESTMENT ACTIVITY WILL NEED TIME TO RECOVER

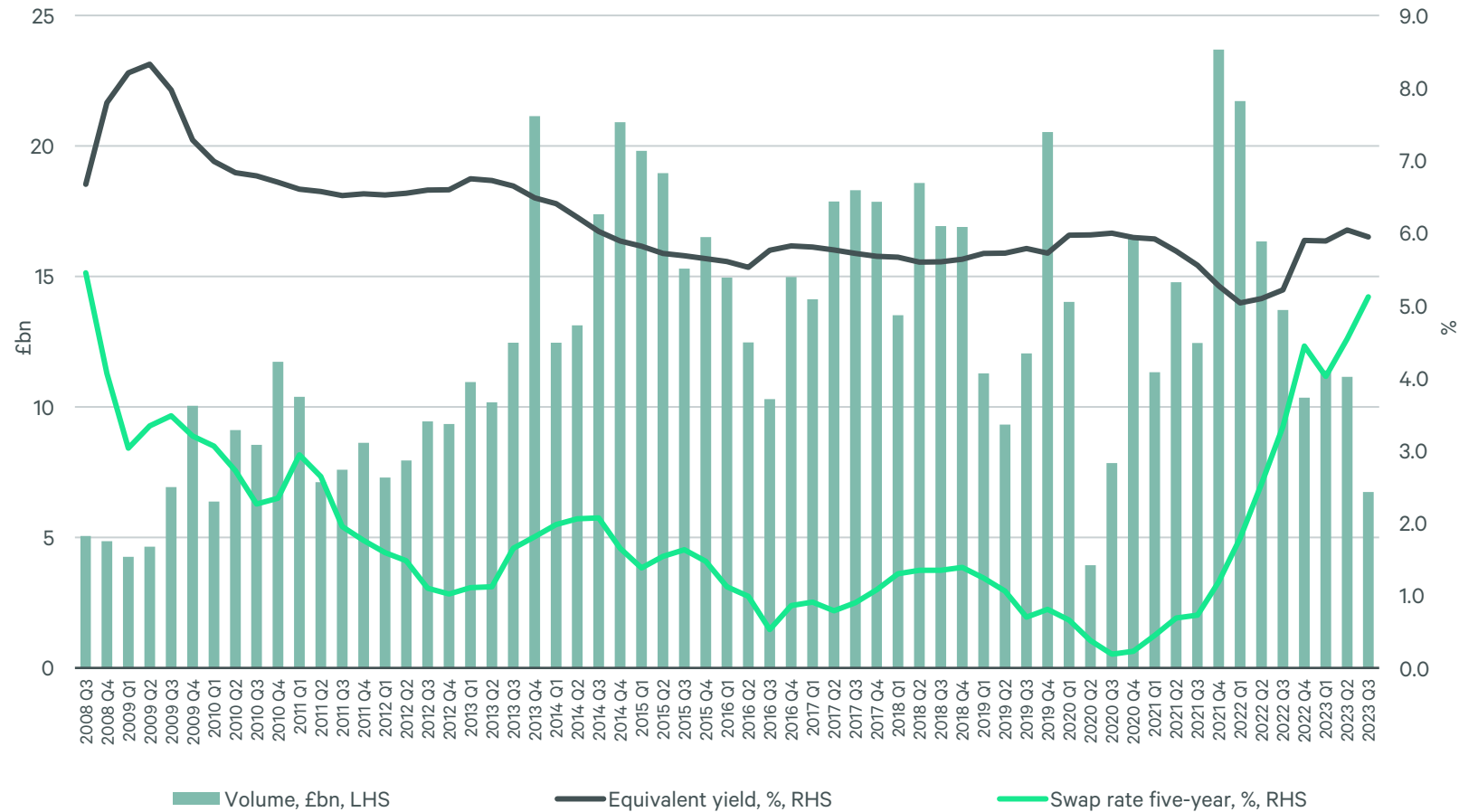
We anticipate that investment activity will improve in 2024 relative to 2023, but it will take time for activity to return to the levels seen before the market downturn. Moreover, volumes in cash terms will take more time to recover than activity. This reflects the lower price levels of investments transacted at the bottom of the market.

Several factors will affect investment patterns next year. Firstly, interest rates are key; we anticipate stabilisation and then a moderate decline in long-term interest rates in 2024, as the path for policy interest rates becomes clearer. This should alleviate the denominator effect that impacted flows to real estate from multi-asset investors as they sought to rebalance towards fixed-income investments during the steep rise in interest rates (and fall in bond prices) in 2022 and 2023.

Despite this, we anticipate asset disposals in response to market pressures that have built up in the last 18 months. The higher interest rate environment has enabled more defined benefit pension funds to implement de-risking and/or buyout strategies that involve further restructuring of their portfolios from growth assets to liquid fixed-income investments.

Borrowing costs will remain higher throughout 2024 than over the previous decade and this will affect transaction activity, reducing the role of leverage in asset acquisition strategies in the near-term. However, conditions will provide the opportunity for investors with equity to execute counter-cyclical investment strategies on behalf of their clients.

Figure 5: Transaction volumes, yields and swap rates



Source: CBRE Research, Oxford Economics

## THE REFINANCING CHALLENGE WILL CONTINUE

We will continue to see headlines about refinancing of real estate loans in 2024. Many loans that reach maturity next year will have been originated in a different interest rate environment and in very different real estate market conditions.

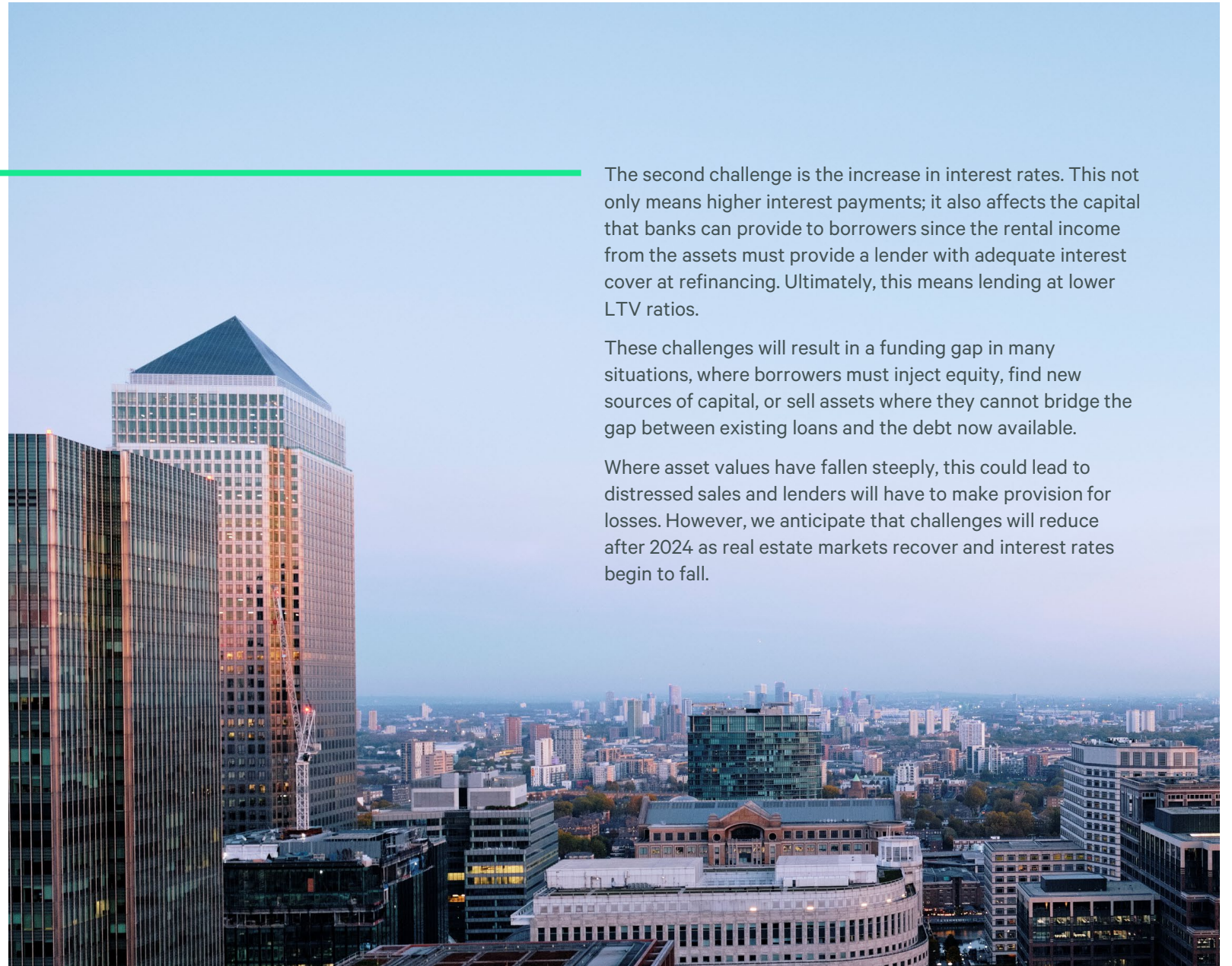
Data from the Bayes Business School UK Commercial Real Estate Lending Report indicates that 2018-2021 saw more than £175bn of debt originated against commercial real estate. While the maturity dates for these loans will be spread across the next few years, we anticipate that 2024 will be a crunch year for many borrowers.

The first challenge borrowers face is the decline in capital values across the real estate market, with only a few sectors having seen significant increases in value in the years before the downturn. This has resulted in less collateral to work with at maturity.

The second challenge is the increase in interest rates. This not only means higher interest payments; it also affects the capital that banks can provide to borrowers since the rental income from the assets must provide a lender with adequate interest cover at refinancing. Ultimately, this means lending at lower LTV ratios.

These challenges will result in a funding gap in many situations, where borrowers must inject equity, find new sources of capital, or sell assets where they cannot bridge the gap between existing loans and the debt now available.

Where asset values have fallen steeply, this could lead to distressed sales and lenders will have to make provision for losses. However, we anticipate that challenges will reduce after 2024 as real estate markets recover and interest rates begin to fall.



# 03

## Sustainability

---

In 2024, UK real estate's transition towards net zero will accelerate. This will be increasingly reflected in asset pricing. The role of infrastructure in supporting the real estate transition will become increasingly important and biodiversity will emerge as a priority issue for developers.

## Key Takeaways

# 01

Upgrades in energy efficiency and other sustainability features will be increasingly costed into asset values. There will be a period of price discovery as the industry improves its understanding of sustainability CapEx costs and relative investment performance for more sustainable versus less sustainable assets.

# 02

Mandatory disclosure requirements are evolving, with more likely to be introduced in the UK, including [TPT Transition Plans](#). Both occupiers and investors will need to understand how to gather the relevant data and disclose correctly under these frameworks if they are to attract capital targeting sustainable activities.

# 03

The power grid will become an increasingly important barrier to real estate decarbonisation and renewable infrastructure investment. Understanding where and when grid capacity can support rising supply and demand will be critical to investment decisions.

# 04

Physical climate risks to buildings and infrastructure will be of growing importance to occupiers, investors, and lenders. Questions around insurability and business disruption from climatic hazards will come to the fore and will increasingly be considered in lending decisions.

# 05

Regulation and disclosure will begin to turn to nature and biodiversity. After a delay, Biodiversity Net Gain regulation will be enforced from January 2024. Meanwhile, the new Taskforce on Nature-related Financial Disclosures ([TNFD](#)) will aim to direct investment towards activities with [nature positive outcomes](#).



### PRICE DISCOVERY FOR LESS SUSTAINABLE ASSETS

In 2024, as the risk and cost associated with less sustainable assets becomes clearer, price discovery is likely to accelerate. This will not occur in all sectors and markets, but asset classes which are more complicated to upgrade and are experiencing weaker occupier demand will likely see a growing divergence in asset value and performance between more and less sustainable buildings.

As price discounts for less sustainable buildings become more pronounced, some will become increasingly attractive to value-add and opportunistic investors seeking to upgrade building sustainability credentials.

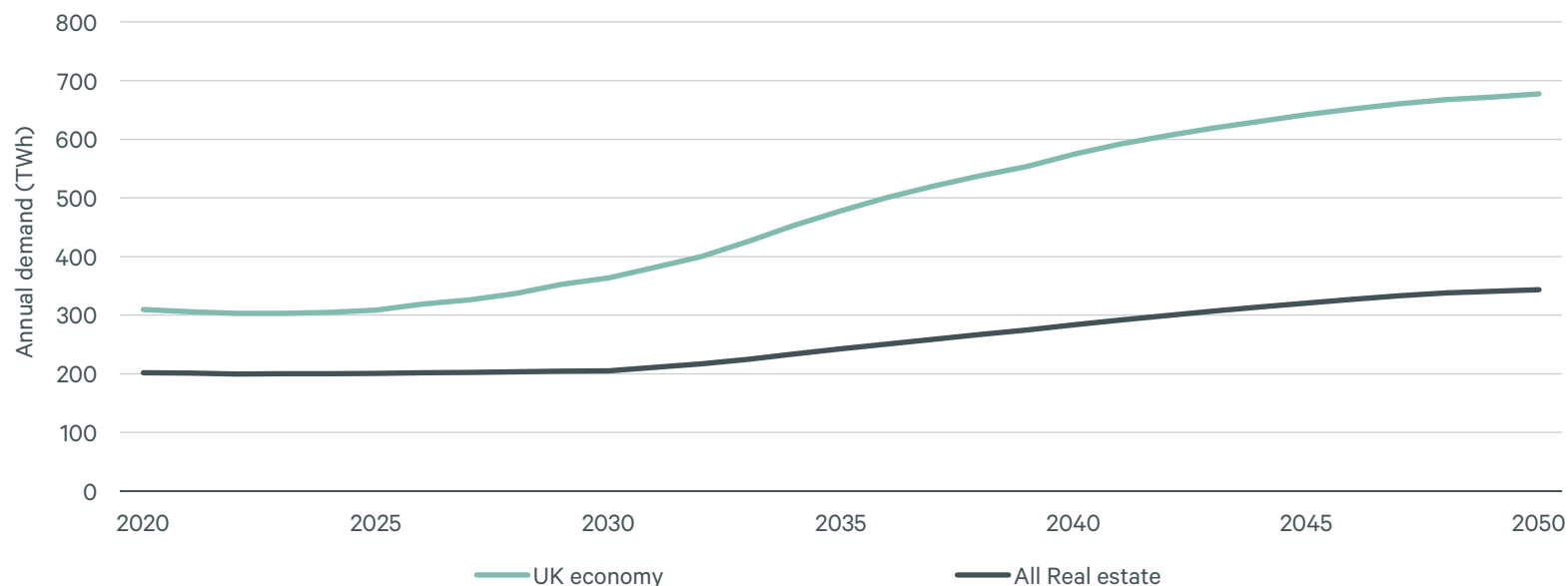
### SUSTAINABILITY DISCLOSURE REQUIREMENTS

Disclosure aims to prevent greenwashing and direct capital towards more sustainable practices. In 2024, the UK Government and the FCA will make decisions on which additional disclosure frameworks will become mandatory for UK listed companies.

CBRE expects the [IFRS S1](#), [IFRS S2](#), and [TPT Transition Plans](#) to become mandatory, with reporting potentially required as early as 2025.

Both occupiers and investors should use 2024 to become familiar with these requirements and prepare the resources and data needed to report on them. Using existing guidance to report on these requirements voluntarily before they become mandatory could be beneficial, as seen previously with the roll out of Task Force on Climate-Related Financial Disclosures (TCFD) requirements.

Figure 6: Forecast of UK electricity demand



Source: Climate Change Committee, Sixth Carbon Budget

### ENERGY INFRASTRUCTURE AND DECARBONISATION

The net zero transition depends on the replacement of fossil fuels by predominantly zero carbon electricity. Figure 6 shows how the transition will lead to a 70% increase in electricity demand from UK real estate, and a 119% increase across the economy by 2050.

To prepare for this demand, 2024 will see increasing infrastructure investment to modernise the power grid and bring new renewable energy sources online. 2024 will also see delays to some real estate developments, renewable energy projects, and electric vehicle infrastructure unable to connect to the power grid, which is already at capacity in multiple locations.

## UNDERSTANDING PHYSICAL CLIMATE RISKS

2023 broke global temperature records, raising concerns about the increasing frequency and severity of extreme weather events.

In 2024, occupiers, investors, and lenders will accelerate their efforts to understand the physical risks to which they are exposed, not only in terms of damages to buildings, but also the disruption to surrounding infrastructure and communities which affect building and business operation.

Research suggests around [40% of UK commercial property is underinsured](#). Therefore, many building owners and lenders may be more exposed to the financial risks of physical hazards in 2024 than they realise.



## NATURE AND BIODIVERSITY

Developers in England will be required to comply with Biodiversity Net Gain (BNG) legislation from January 2024. Developers should pay special attention the availability of local biodiversity units, without which meeting BNG requirements will be more challenging and expensive.

[Guidance on reporting corporate nature-related risks and opportunities](#) was published in Q3 2023 by the [TNFD](#). In 2024, how widely these voluntary disclosures are adopted will become apparent. TNFD disclosures are likely to increase the focus on the biodiversity impacts of existing assets and portfolios, whereas BNG legislation focuses solely on new developments.

# 04

## Office

---

Liquidity in the office investment market will return when interest rates start to fall in the second half of 2024. Take-up of office space in UK markets will improve over the course of the year and prime rental growth is forecast for most markets.

## Key Takeaways

# 01

The interest rate environment has dominated the office investment landscape since they started rising in the second half of 2022, severely constraining volumes. This will ease in the second half of 2024, but investment volumes in the first half will remain low.

# 02

Having moved out in 2023, prime office yields in most markets will start to compress by the end of 2024.

# 03

The impact of interest rate rises will halt the expansion in the office jobs market. Following healthy increases in the last two years, we expect office-based employment to remain largely unchanged in 2024.

# 04

Despite slowing jobs growth, UK office take-up in 2024 is expected to increase relative to the levels seen in 2023.

# 05

Demand for the best quality buildings in the best locations will remain robust in 2024. This will lead to rental growth in most UK office markets at the prime end of the spectrum.



# Investment to remain subdued; leasing will improve

## INTEREST RATE RISES DOMINATE THE MARKET

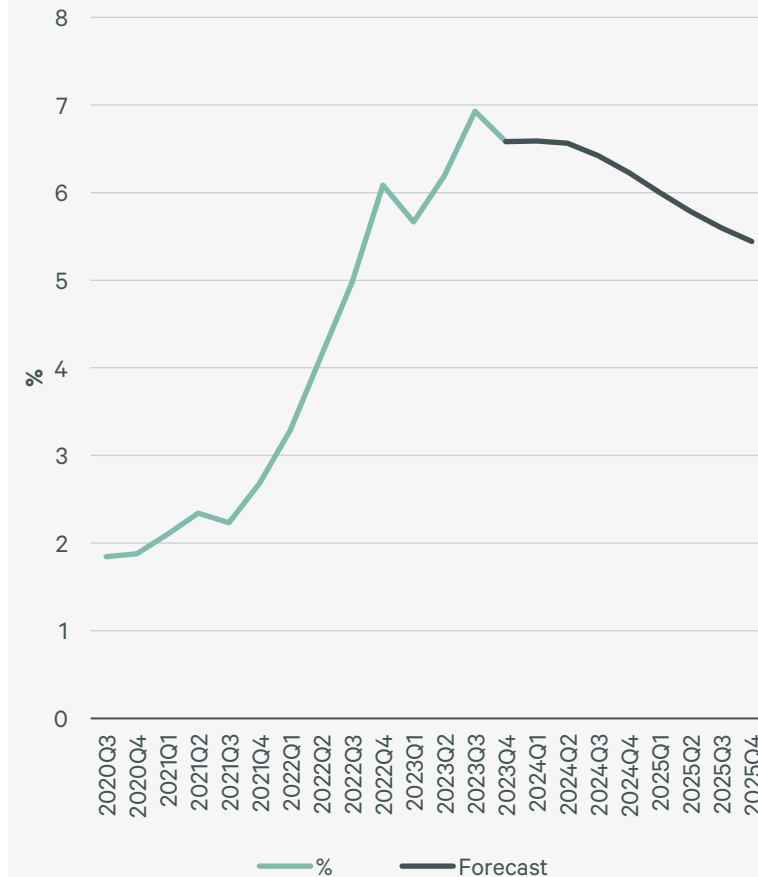
The office investment market in 2023 was severely constrained by the steep increases in interest rates. The first three quarters of 2023 saw £6.5bn invested in the UK office market, with a further £3.1bn expected to transact in the final quarter of the year. This would take 2023 office investment volumes to their lowest level in 20 years.

The increase in interest rates caused a repricing of office assets in the UK during 2023. Prime yields in all office markets tracked by CBRE will end the year higher than they ended 2022, with average yield expansion of 75 basis points across the UK office markets.

Our forecasts suggest the Bank of England base rate has peaked and will remain at 5.25% throughout the first half of 2024. However, there is the real prospect of rate cuts in the second half of 2024, with base rates ending the year at c.4.75%. Moving from an environment of expected rate increases to an environment of expected rate cuts will filter through to the cost of debt. The full cost of debt for prime stabilised office assets is forecast to fall from the Q3 2023 level of 6.9% to 6.2% by the end of 2024.

The fall in interest rates will see UK office yields stabilise during 2024 and will start to compress from the second half of the year in most UK office markets.

Figure 7: All-in cost of debt (%), prime UK office



Source: CBRE Research

## VOLUMES WILL INCREASE IN 2024, BUT REMAIN LOW RELATIVE TO TREND

The combination of yield stability and falling debt costs will stimulate investment activity in the UK office market in 2024, with a weighting to the second half of the year once interest rates start to fall. Full-year investment volumes for 2024 are expected to increase substantially from 2023 levels but will remain low relative to the 10-year average level of £22bn.

## WEAKER JOBS GROWTH IN 2024

After having seen substantial increases in 2023, office-based employment growth is expected to halt in 2024 as the impact of interest rate rises takes effect on the UK economy. Current forecasts suggest zero net growth in office-based employment in the UK office markets tracked by CBRE.

Despite the slowing of employment growth, take-up in the UK office market for 2024 expected to increase relative to the levels seen in 2023, as macroeconomic volatility diminishes.

**SUPPLY AND DEMAND  
IMBALANCE WILL DRIVE RENTAL GROWTH**

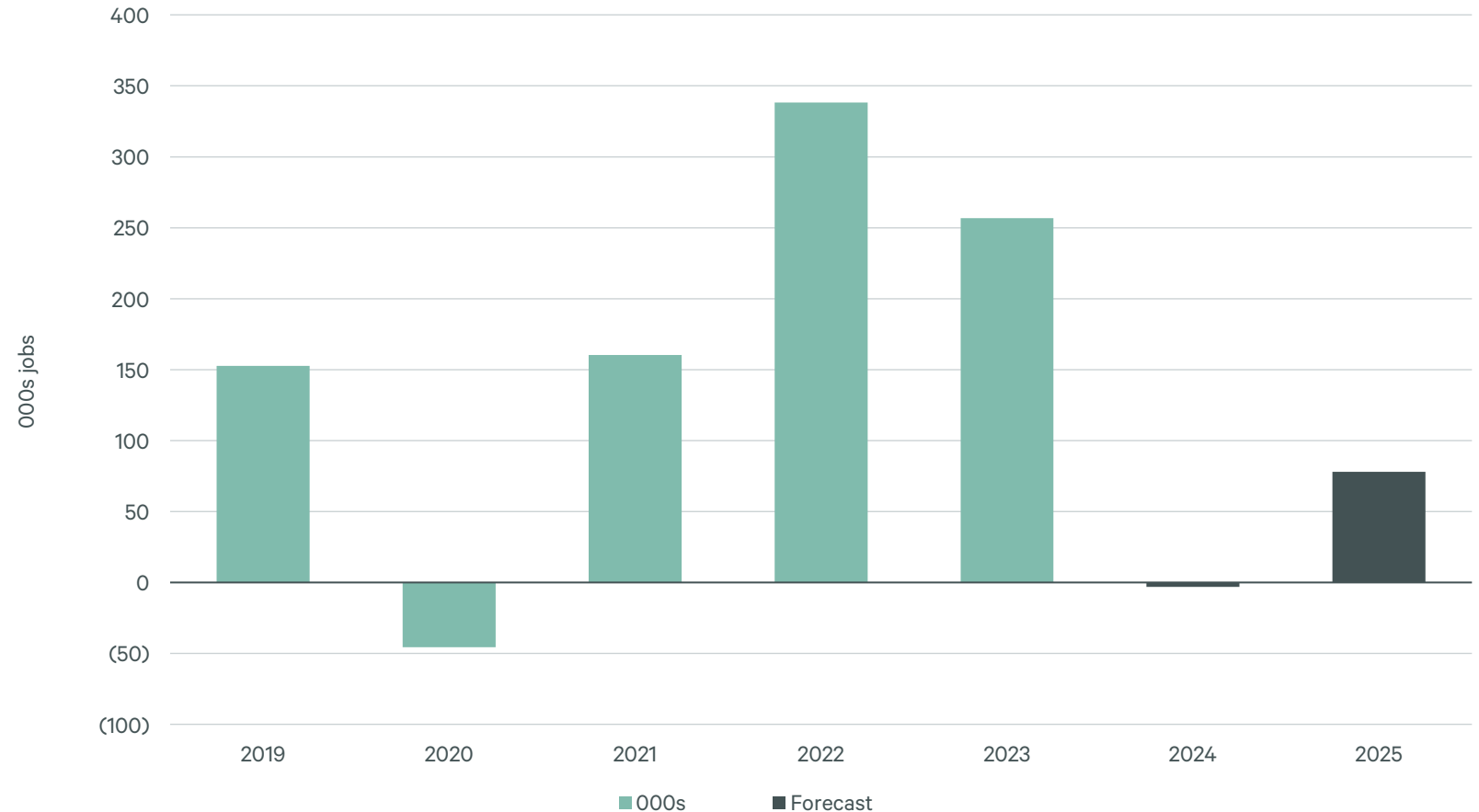
There was a clear flight to quality in 2023, with demand for the best quality, best located, most environmentally sustainable buildings outstripping supply. This partly reflects occupiers using their buildings to attract employees to the office in a hybrid working world. We expect this trend to continue into 2024 and beyond.

Elevated demand for the best quality space has depleted the development pipeline. Of the space currently under construction across the UK office markets and due for completion in 2024, a total of 37% has already been acquired by occupiers.

The continuing depletion of the development pipeline will create competitive tension for the best quality buildings and will increase rents at the top end of the market.

Rental growth is expected in all UK office markets in 2024 at the prime end of the market. Forecasts for full-year rental growth average c.3% across most UK markets, building on a year of strong growth in 2023. Most markets saw new record headline rents achieved in 2023 and this is likely to be repeated in 2024. The best located buildings offering exceptional amenity and access to outdoor space will see super-normal rental growth.

**Figure 8: Office-based employment growth, UK office markets, 000s jobs**



Source: CBRE Research, ONS

# Return of creatives

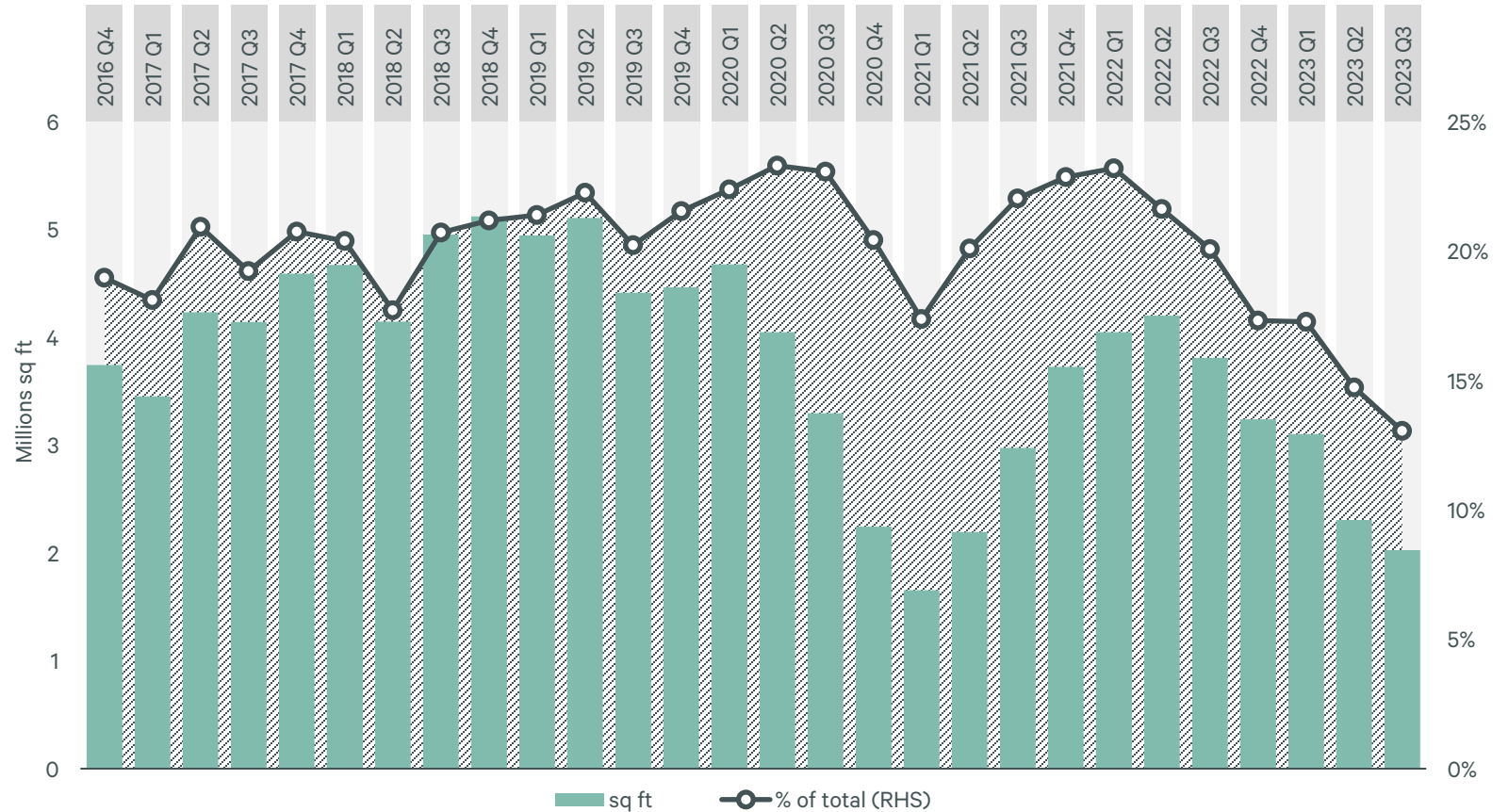
## CREATIVE INDUSTRIES WILL RETURN TO THE MARKET IN 2024

The creative industries sector, especially those which are US headquartered, have been the slowest to return to the office post-pandemic. As a result, demand for new space from that sector is significantly down from its pre-COVID norm. Since the end of lockdown, the share of UK office market take-up represented by the creative industries has been steadily falling. In the 12 months to the end of Q3 2023, it represented 13% of the market, almost half the level seen on average pre-2020.

However, a combination of factors is leading to an expectation that 2024 will mark a turning-point in demand from the creative and tech sectors:

- While retrenching from the standard office market, creative firms have been focusing their demand on flex space. In 2023, the creative industries represented 45% of all flex deals transacted by CBRE. Although the outlook for flex demand remains positive in 2024, many creative occupiers use flex space as a short-term solution. 2024 will be the year that they seek a more permanent solution
- Towards the end of 2023, a number of the largest US tech companies implemented strict return to office policies. This has had a positive impact on the office occupancy of many of those occupiers' UK premises. Some large tech occupiers will need to acquire new space in 2024 to accommodate the large net increase in staff they now have relative to the levels pre-pandemic
- 'Office-sceptic' US-based boards are realising that the malaise in the office sector in the US is not replicated in Europe, and will be more inclined to agree to office leasing transactions in 2024 than they have been at any point since the pandemic

Figure 9: Take-up of space by Creative Industries, rolling 12 months, sq ft and as % of total



Source: CBRE Research

# 05

## Industrial & Logistics

---

A continuation of macroeconomic headwinds will weigh on occupier activity, creating an increasingly polarised market. Prime assets will retain appeal, but the performance of secondary assets is likely to be more challenged. With little change to the investment environment anticipated in the short-term, the stalemate between buyers' and sellers' expectations of price may start to break for some, albeit volumes will remain subdued

## Key Takeaways

# 01

Amidst ongoing macroeconomic headwinds creating uncertainty, take-up will remain subdued. Third-party logistics (3PLs), counter cyclical players such as discounter retailers and nearshoring businesses are expected to lead demand.

# 02

Despite a material reduction in occupier expansion, only moderate vacancy rate rises are anticipated in the year ahead as the volume of space under construction continues to decrease.

# 03

However, the market will become increasingly polarised. While prime assets are still expected to deliver rental growth, the performance of secondary assets will be more challenged.

# 04

As green features become the norm for new facilities and rise up the agenda for many occupiers, rents and marketing voids of non-compliant properties are expected to come under increasing pressure in 2024.

# 05

With market dynamics unlikely to change, investment activity in 2024 will remain muted versus recent record-breaking years. Given the sector's increasingly nuanced performance, investors are encouraged to undertake more granular analysis as part of their due diligence.



## Slowing demand could create an increasingly polarised market

### DEMAND DAMPENED BY MACROECONOMIC HEADWINDS

Against a backdrop of high inflation and rising interest rates, logistics occupiers have taken a cautious approach to expansion in 2023. Throughout the year, the volume of take-up has been around half that seen in 2022. Decision-making has also been affected by uncertainty, with deals taking time to progress.

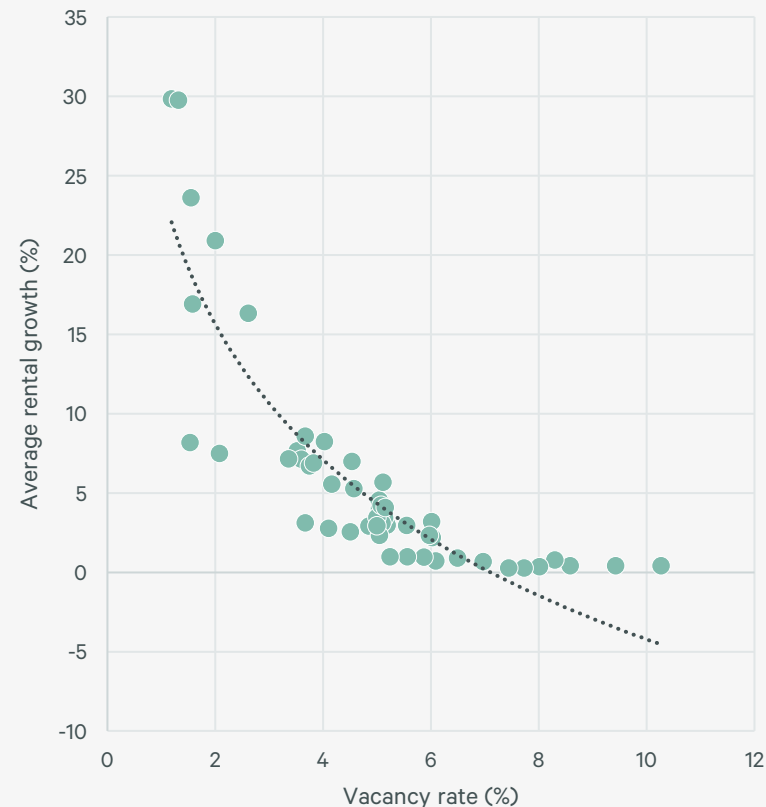
Contributing to the reduction in take-up, there has been a shift in demand to smaller and mid-size big box units. Typically, the smaller lots are being taken by 3PLs, this sector now accounting for almost 40% of all take-up. Looking to the year ahead, we anticipate 3PLs will maintain expansion plans, meeting the demand of companies seeking to outsource supply chains to achieve savings and greater flexibility in their transportation solutions.

Despite ongoing economic challenges, almost 10m sq ft of big box logistics space remains under offer, indicating market resilience. Together with 3PLs, in 2024, countercyclical players such as discounter retailers or nearshoring businesses are expected to lead demand. While many have taken a 'wait and see' approach throughout 2023, it is likely that pressure to make business decisions will increase in the year ahead.

### SLOWING DEVELOPMENT WILL MODERATE VACANCY RISES

Vacancy rates have risen throughout the course of 2023, now standing above 4.5%. This has in part been driven by subdued demand, but also by an increase in available stock. In Q3 alone, 3.5m sq ft of newly completed speculative space became available.

**Figure 10: UK logistics average rental growth vs vacancy rate**



Source: CBRE Research

Note: Data points on chart represent an individual quarter's performance since Q2 2011 with rent on an annualised basis

Increases to supply has provided occupiers with more choice, and as a result, some are seeking to relocate to more appropriately suited units. We anticipate the volume of secondhand stock returning to market will increase in 2024, which in part, is as a result of this trend.

However, the development pipeline has slowed for three consecutive quarters and is 25% down year-on-year. This downward trend is expected to continue into 2024, particularly in the speculative space being delivered. As such, we expect only moderate vacancy rises, with rates continuing to drift back to pre-pandemic levels.

### RENTAL PERFORMANCE WILL BE INCREASINGLY POLARISED

Prime rental growth is still evident in several regions, albeit at moderated levels versus recent record-breaking years. Figure 10 highlights the direct relationship between vacancy rates and rental growth in the logistics sector. In line with the moderate vacancy rate rises forecast, we anticipate a continued slowdown of rental growth.

Despite slowing development, the additional stock delivered will still contribute to an increasingly polarised market. While prime assets are expected to continue to command rental growth, it is likely landlords of secondary assets will need to provide increasing incentive packages to attract prospective tenants.

[CBRE's latest survey](#) highlights the increasing importance of ESG amongst occupiers. Features such as charging points for electric vehicles, or photo voltaic panels, are now becoming standard for new developments. In 2024, rents of non-compliant properties are likely to come under increasing pressure.

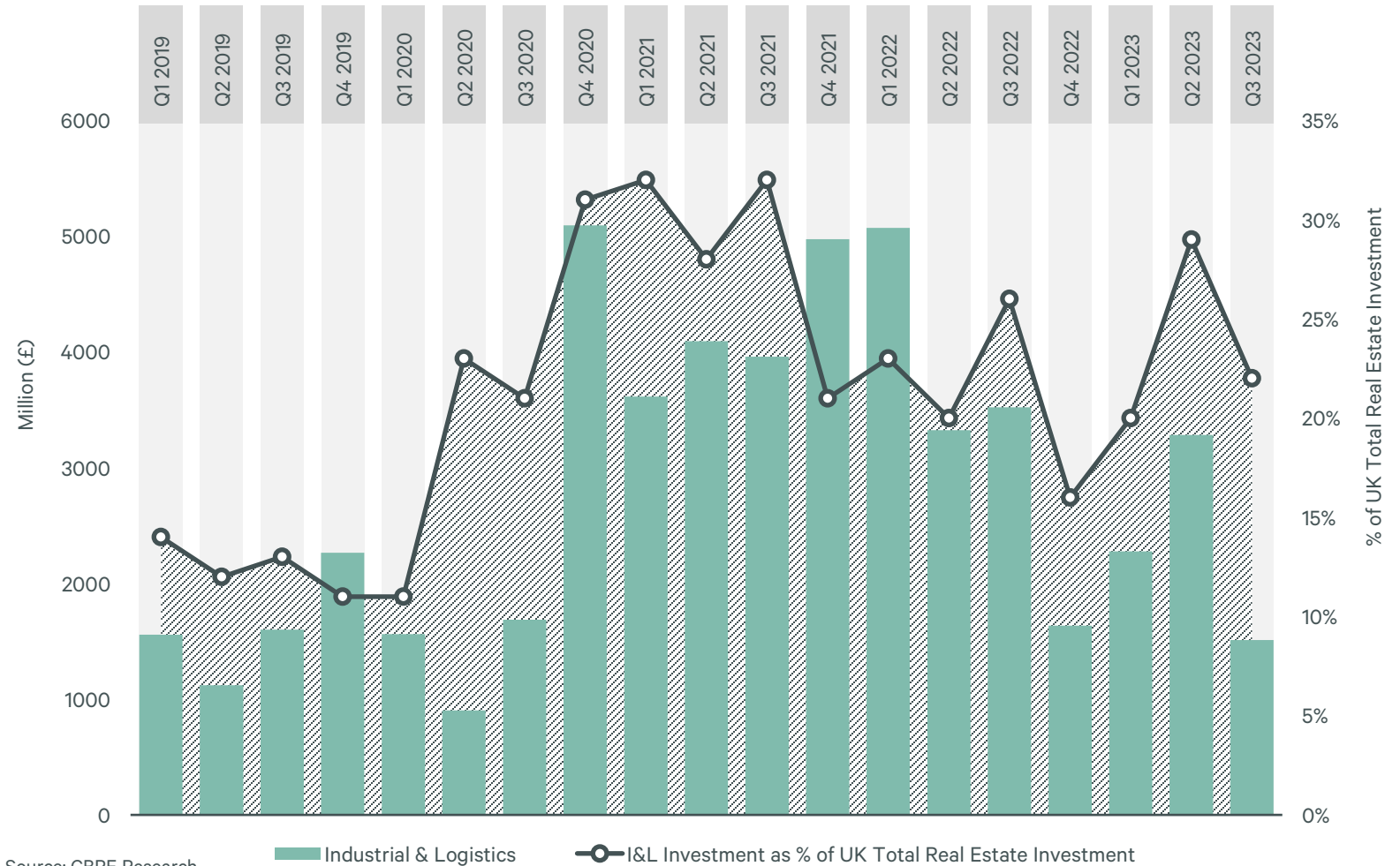
**INVESTMENT ACTIVITY TO REMAIN SUBDUED VERSUS RECENT RECORD-BREAKING YEARS, BUT SELECTIVE OPPORTUNITIES WILL ARISE**

Industrial and logistics pricing has remained stable throughout 2023. However, with willing buyer and willing sellers' expectations of price unaligned, the market has fallen into a stalemate and investment has slowed. Year to date investment into the sector including all transactions has totalled £7.1bn, significantly below 2022 levels.

Looking ahead, the base rate is now expected to be held throughout H1 2024 – with gradual downward adjustments thereafter. Consequently, pricing recovery is likely to take longer than initially expected. With little change to market conditions anticipated throughout 2024, investment activity will remain subdued versus recent record-breaking years. This said, a steady supply of assets are still expected to come to market as many look to fulfil business plans.

Investors seeking to establish or further develop their exposure to the sector in 2024 are advised to undertake thorough due diligence. Within the last year logistics performance has become increasingly nuanced, bids should be informed by the target market's individual supply and demand dynamics.

**Figure 11: UK real estate investment by I&L and I&L % of total investment (RHS)**



Source: CBRE Research

Industrial & Logistics

I&L Investment as % of UK Total Real Estate Investment

### ADVANCED MANUFACTURING A NATIONAL GROWTH PRIORITY

Reflecting economic headwinds, the manufacturing PMI has been contracting since summer 2022. While weak economic growth looks set to continue into the year ahead, with Brexit now implemented and an upcoming election, opportunities for the manufacturing sector could be on the horizon.

Steps to encourage investment have already begun. In this year's Spring Budget, the Government announced plans to launch 12 [Investment Zones](#) in key industries that support national priorities. In July, South Yorkshire was named as the first Zone, focusing on advanced manufacturing the area has secured £80m of initial investment, and is set to create more than 8,000 jobs by 2030. However, according to Make UK, [less than a third of the industry](#) believe special economic zones are an effective means of generating economic growth, with many often located outside of target areas.

What could cause significant change? According to Make UK and RSM, [44% of companies](#) believe the current UK tax and regulation systems are unfavourable, and more than a quarter say it is worse than other major competing countries. Moreover, [87% believe](#) they are at a disadvantage compared to international competitors because the UK lacks an industrial strategy.

While it is likely that logistics occupier activity will remain subdued in the year ahead, as economic conditions improve the strategies set out at the next election could have a meaningful impact on the real estate strategy of manufacturers and their expansion plans.



With Brexit now implemented and an upcoming election, opportunities for the manufacturing sector could be on the horizon.

# 06

## Retail

---

Retail sales are expected to remain subdued in 2024. While expansion will be on the cards for some, with trading conditions expected to remain challenging, modest vacancy rate rises are anticipated. Retail's investment profile will remain diversified – while Retail Parks will continue to be the top choice for many, the recent increase in popularity of other sub-sectors will extend into 2024.

## Key Takeaways

# 01

UK retail sales volumes have remained below 2019 levels throughout 2023. Subdued performance is expected to continue into 2024, with meaningful growth not expected to resume until later in the year.

# 02

Online penetrations have broadly returned to pre-pandemic (2015-2019) trend. Considering projections of [online penetration drivers](#), we expect to see continued moderate growth, reaching 28% by the end of 2024.

# 03

Profit margins are set to remain under pressure in the year ahead. Occupiers will continue to encourage consumers to utilise their physical store network to maximise profitability.

# 04

Expansion will be likely for some, albeit the focus will be on 'safe bet' locations. Given trading conditions are expected to remain challenging in the year ahead, modest vacancy rate rises are anticipated.

# 05

Retail pricing will remain attractive versus other commercial sectors in the year ahead. While Retail Parks will remain top choice for many, interest in Grocery and Shopping Centres looks set to continue.



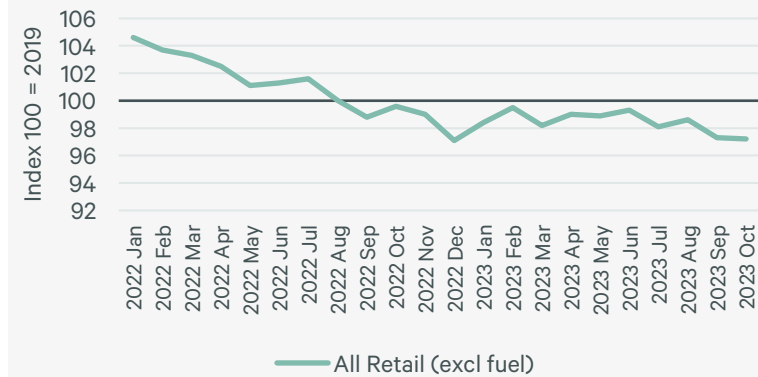
**PRESSURES STILL LOOM OVER SALES PERFORMANCE**

Despite steadily increasing throughout the course of this year, [GfK's consumer confidence metric](#) remains firmly in negative territory, highlighting the continued impact of the cost of living crisis. Weakened confidence has also translated to a fall in spend, and [sales volumes](#) have consistently remained below 2019 levels throughout the year.

Looking ahead to 2024, we are cautious. The base rate is expected to be held throughout H1 2024 therefore consumer confidence is likely to remain subdued and spending controlled as more households refinance at higher interest rates. Meaningful growth is not expected to resume until H2 2024, when the current market conditions which incentivise savings over spending starts to revert. If the base rate is held for longer than anticipated, this could prolong the current stagnation.

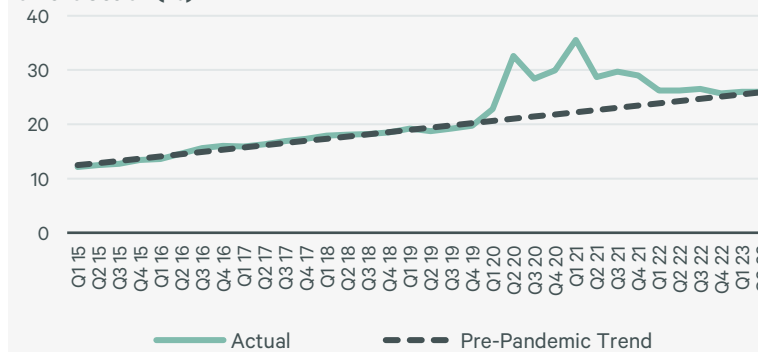
Against a challenging macroeconomic backdrop, where many consumers will find themselves prioritising their spending, we anticipate asset performance will become even more polarised. Convenience schemes that deliver every day essentials will continue to be well frequented, meanwhile treat spending will be saved for regional schemes with a diverse and experience led tenant mix. Assets that do not fulfil these types of shopping trips will struggle to retain market share.

**Figure 12: UK retail sales volumes (Index 2019 = 100)**



Source: CBRE Research, ONS

**Figure 13: UK online penetration rate, 2015-19 trend and actual (%)**



Source: CBRE Research, Euromonitor, Eurostat

**ONLINE PENETRATIONS HAVE RETURNED TO PRE-PANDEMIC TREND**

Our recent research, [E-Commerce in a Post-Pandemic Era](#), highlights the UK's online penetration has broadly returned to pre-pandemic trend. Despite a surge in growth throughout the pandemic, online penetrations moderated in 2022 and reached their lowest point at the start of this year. However, throughout 2023, penetrations have been gradually increasing, and as of October, stand at **26.6%**. Considering projections of [online penetration drivers](#) such as demography, internet usage, culture, and infrastructure, we expect to see continued moderate growth, reaching 28% by the end of 2024.

This said, with margins remaining under pressure, we anticipate retailers will continue to encourage consumers to utilise their physical store network to maximise profitability. Following the early adopters, more brands are expected to introduce fees for online returns. Additionally, occupiers will continue to develop their breadth of in-store services, creating a point of differentiation versus online.

### VACANCY EXPECTED TO MODERATELY RISE, BUT PRIME ASSETS WILL REMAIN IN DEMAND

Some high-profile retail administrations have resulted in vacancy rates increasing by 30 basis points – returning to Q1 2022 levels of 11.7%. However, this trend is not consistent across all assets.

The Retail Parks vacancy rate continues to narrow, appealing to a broadening tenant base. Strongly aligned with consumer trends, we anticipate this retail sub-sector will continue to perform well in the year ahead. While the average Shopping Centre vacancy rate remains high, in prime assets, occupancy levels are much greater. Best in class assets are achieving competitive tension and subsequent rental growth. Reflecting their sustained appeal, in 2023 many occupiers have upsized their units in these locations to deliver the highest quality experiences for their consumers – a trend we expect to continue in the year ahead.



While the business rates revaluation which came into effect this year has boosted occupier affordability in 2023, the Chancellor's recent decision to not scrap an inflation-linked rise will dampen the revaluation's positive impact in 2024.

Despite this, expansion is still expected to be on the cards for some – albeit the increased costs associated with store openings will lead to occupiers focusing on 'safe bet locations'. Given trading conditions are expected to remain challenging in the year ahead, modest vacancy rate rises are anticipated.



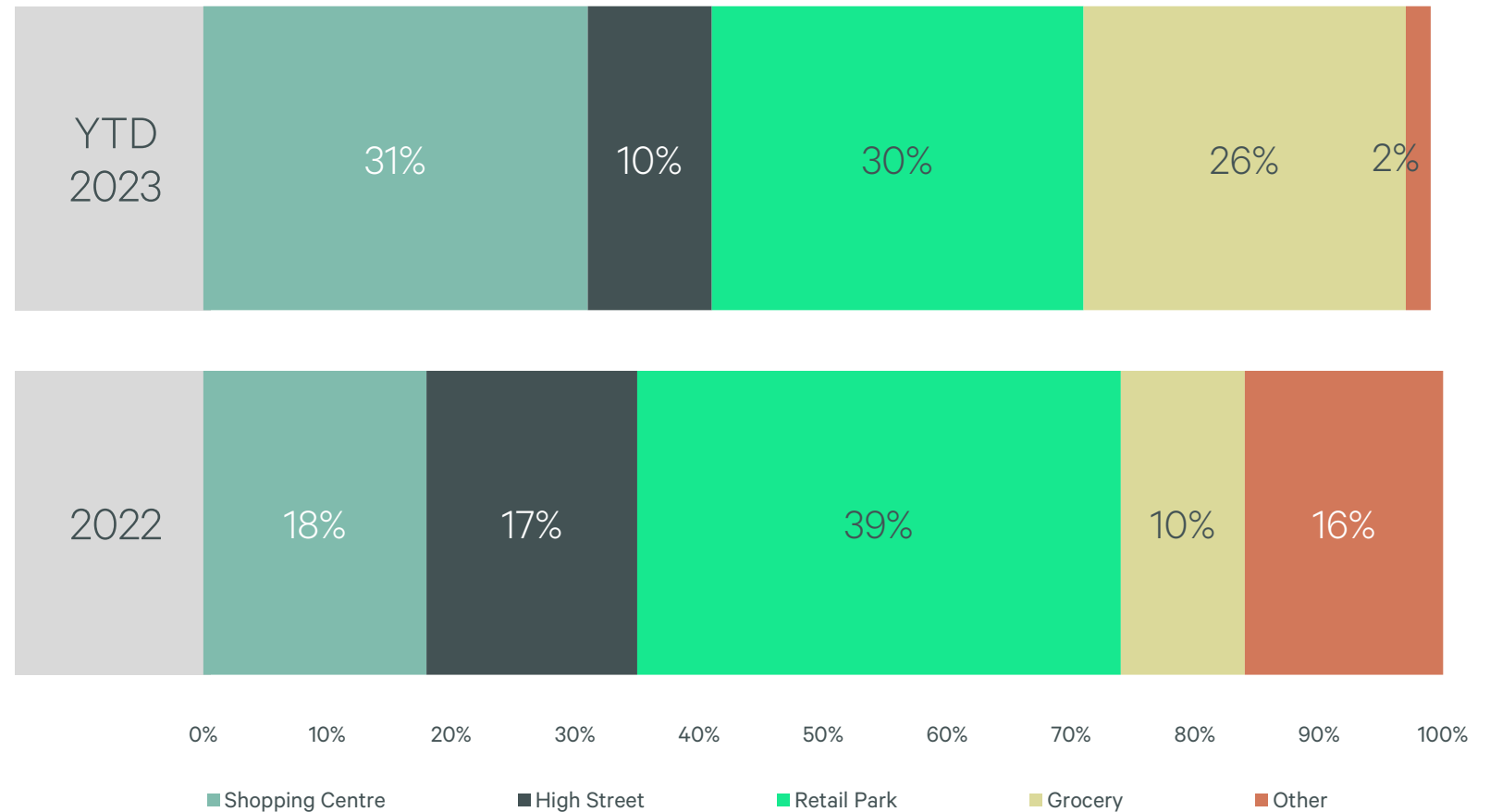
**WHILE RETAIL PARKS REMAIN POPULAR, APPETITE FOR OTHER RETAIL SUB-SECTORS INCREASES**

Reflective of the weak economic backdrop, UK retail investment volumes are down 30% year on year, at £4.76bn. However, pricing remains stable and attractive when compared to other commercial property sectors.

Throughout the year, the market has become more diversified, a trend we expect to continue into 2024. While Retail Parks continue to account for almost a third of all investment and are expected to remain the top choice for many – offering strong fundamentals and relatively small-lot sizes – other sub-sectors have increased in popularity.

Offering recession-resilient fundamentals, the Grocery sector has had a strong year, accounting for 26% of investment. Robust volumes are expected to trade in the year ahead as the steady supply of stock through sale and leasebacks is complemented by an investor pool actively seeking secure income assets. Meanwhile, Shopping Centres have also reported a notable uptick in activity. While secondary assets continue to attract opportunistic investors and local authorities, prime activity is also starting to resume. Market polarisation has solidified the fundamentals of the highest-quality assets; in the year ahead, we anticipate an increasing breadth of buyers will explore this segment of the market.

Figure 14: UK retail investment profile



Source: CBRE Research

### REPURPOSING IS MORE APPLICABLE TO SOME THAN OTHERS

The UK retail market continues to grapple with a supply and demand imbalance, creating clear divisions in performance.

For many landlords, repurposing will remain a priority in 2024, particularly given the continued forecasted growth of online penetrations, and softening of demand due to macroeconomic conditions. Reallocation of space to other uses not only increases the likelihood of achieving competitive tension in the remaining retail space but can also positively impact footfall and bring a new profile of customer to an asset.

However, asset strategies should be under constant review in this fast-changing environment. While the swathe of CVAs that occurred pre-COVID and shakeout of weak performers during the pandemic might have once pointed to repurposing as the solution, certain prime assets are now seeing a resurgence of occupier demand. Moreover, considering the elevated cost of capital, assets remaining as retail might have returned to the most viable option.



07

# Residential

---

Demand across the residential sectors will remain robust, with investment forecast to rebound strongly. However, supply will struggle in 2024 as market participants continue to face a multitude of challenges across the planning, regulatory, and funding spectrum.

# Residential Sales

**The residential sales market will still be challenging in 2024, but the outlook is more optimistic. Mortgage rates will remain elevated but have already fallen from the recent peaks.**

The base rate is forecast to start falling in the second half of the year. This will underpin sales activity and house prices. On balance, we expect a marginal fall in house prices and transaction volumes to be broadly level to 2023.



## Key Takeaways

# 01

Although the backdrop will remain relatively challenging in 2024, the outlook is certainly more optimistic. Falling inflation will drive an economic recovery and facilitate the loosening of monetary policy in the second half of 2024. This will underpin activity in the housing market.

# 02

Robust wage growth and falling interest rates will also mean mortgage affordability improves throughout 2024. The mortgage market is also becoming increasingly more competitive, which will benefit homebuyers and those remortgaging next year.

# 03

On balance, home sales won't rebound significantly, but the improved backdrop will underpin demand. Transaction volumes will still be below the long-term average in 2024 but remain broadly level to 2023. Buyers' budgets will recover to an extent, albeit this won't support house prices at their current level, with a further 1% fall forecast in 2024.

# 04

In the short-term, new home completions look set to rise in 2024 compared with 2023. Still, several persistent challenges will result in a falling planning pipeline next year. However, the lower rate of construction cost inflation will at least provide some stability and improve development viability.



## Outlook remains challenging but more optimistic

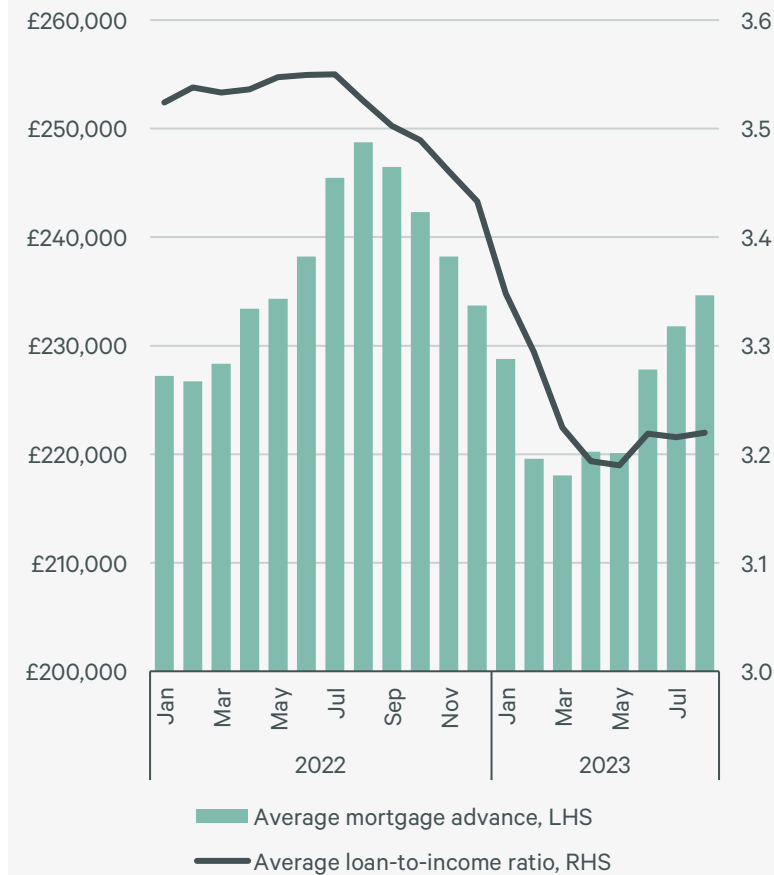
The economy will start to recover in 2024 and we forecast inflation will fall to 2.8% by the end of next year. This is a boon for the housing market as it will ease the pressure on interest rates. We forecast the base rate to remain at its 5.25% peak in the first half of 2024, and then fall back below 5% by the end of the year.

This improved outlook and more stable interest rate environment is already resulting in falling mortgage rates. The available financing has also improved, with the number of fixed-term mortgage products increasing by 60% in 2023. This means the market will be much more competitive in 2024. Some lenders, for example, are now offering mortgages at sub-5% in a bid to gain market share.

Falling mortgage rates will translate into higher loan-to-income ratios in 2024. These were eroded at the start of 2023 as the base rate continued to increase but have now stabilised. However, the average loan size has increased, with the latest data inferring a purchase value of £334,000, surpassing the level at the start of 2023. At present, this is symptomatic of a market weighted increasingly towards higher earners, but it also partly reflects strong wage growth.

Overall, this will support higher loans and boost buying power in 2024, particularly if base rate cuts come in the second half of the year as forecast.

**Figure 15: Average mortgage loan and loan-to-income ratio**



Source: UK Finance

The prospect of falling mortgage rates is positive news for the 850,000 two and five-year fixed mortgages renewing next year. And while payments will still rise, the prevailing rates are still well below what these borrowers would have been originally stress-tested at. In addition, strong house price growth in recent years means those remortgaging will benefit from lower loan-to-values, and hence lower mortgage rates. Other tools, including extending the mortgage term, will also be utilised to keep repayments as low as possible.

The improved outlook moving into 2024 will underpin demand and house prices. We forecast transactions to stay below their long-term average, but to be broadly level with 2023. And although affordability will improve, prices will need to continue to correct to accommodate buyers' budgets. We forecast a moderate fall in UK house prices of 1% in 2024.

### HOUSING SUPPLY WILL CONTINUE TO COME UNDER PRESSURE

Just under 90,000 homes started construction in H1 2023, up 8% from the previous year. This indicates an improving short-term supply outlook of new home completions in 2024, albeit this is still significantly below the estimated requirement.

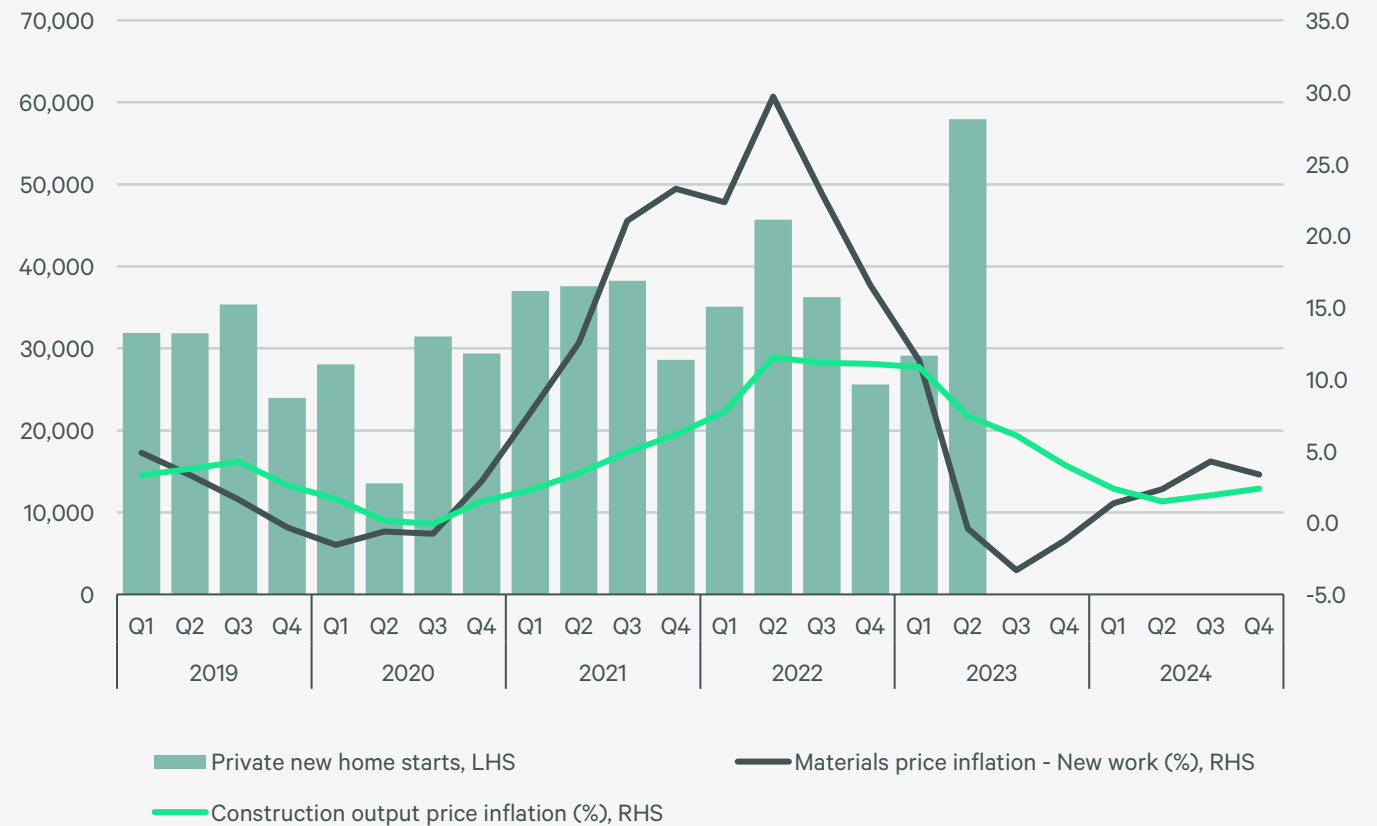
However, the housebuilding sector will continue to be hindered by several challenges, which will impact the future pipeline of new homes in 2024.

Planning remains a key challenge. New fire safety regulations are a necessity but will nevertheless stall planning activity throughout the year. In addition, the lack of local development plans mean councils will continue to be saturated with speculative planning applications. This will consume limited resources and contribute to delays. In London for example, it took an average of almost 18 months for a planning application to be granted permission in 2023, up from just over six months a decade ago. This has contributed to new home permissions falling almost 60% across the capital in 2023.

The higher cost of debt and construction will also continue to impact viability. Almost two-thirds of respondents to the RICS Construction Survey now cite ‘financial constraints’ as a key factor limiting activity. This has risen consistently since the start of 2022. However, the pace of cost inflation should fall back in 2024, providing an element of stability. We forecast materials price inflation to average 3% in 2024, down from a peak of 23% in 2022. This will drive the overall rate of construction cost inflation down to an average of 2% in 2024, compared with the 2022 peak of 10%.

Overall, the delivery of new homes may surpass 2023, but some key challenges will continue to impact the future planning pipeline throughout 2024.

Figure 16: Private new home starts and material/construction cost inflation (actual and forecast)



Source: Department for Levelling Up, Housing and Communities, Department for Business and Trade, CBRE Research

# Build-to-Rent (BTR)

**We expect the acute supply and demand imbalance across the rental market to worsen in 2024.**

This reflects the higher interest rate environment, with many private landlords selling their properties. This has also contributed to pricing uncertainty and lower levels of BTR investment. However, BTR operational metrics remain extremely positive and rent growth is strong.



## Key Takeaways

# 01

The supply and demand imbalance across the private rented sector will continue to deteriorate in 2024. Already low supply is being further compounded by a mass sell-off of rental homes. This is a result of the higher interest rate environment, and previous tax changes, which has made buy-to-let increasingly unviable.

# 02

The number of BTR homes starting construction in 2023 fell to less than half the level recorded in 2022. This partly reflects subdued institutional investment into the sector, coupled with high construction costs, labour shortages, and more expensive debt. This will translate into a significantly lower level of BTR completions in 2024.

# 03

A persistent high level of demand and falling supply will continue to support a strong level of rental growth in 2024. Average rents increased by around 6% in England in 2023, we expect a similar rate of growth in 2024. The BTR sector will continue to outperform the headline level of growth.

# 04

The start of the economic recovery will boost investor confidence in 2024. This will be coupled with a more stable interest rate environment, which will offer a greater degree of pricing certainty. The reduced level of construction cost inflation will also improve the viability of forward funding opportunities. As such, investment into the sector will rebound strongly next year.

# 05

Yields will also be more stable in 2024. A further expansion is expected at the start of the year, but this will continue to be mitigated by strong rent growth resulting in only a minor adjustment.



**PRICING CERTAINTY WILL UNDERPIN INVESTMENT IN 2024**

Our [2023 UK Investor Intentions Survey](#) highlighted that appetite for BTR remained strong. The challenging environment negatively impacted investment throughout 2023, but this is expected to rebound strongly in 2024.

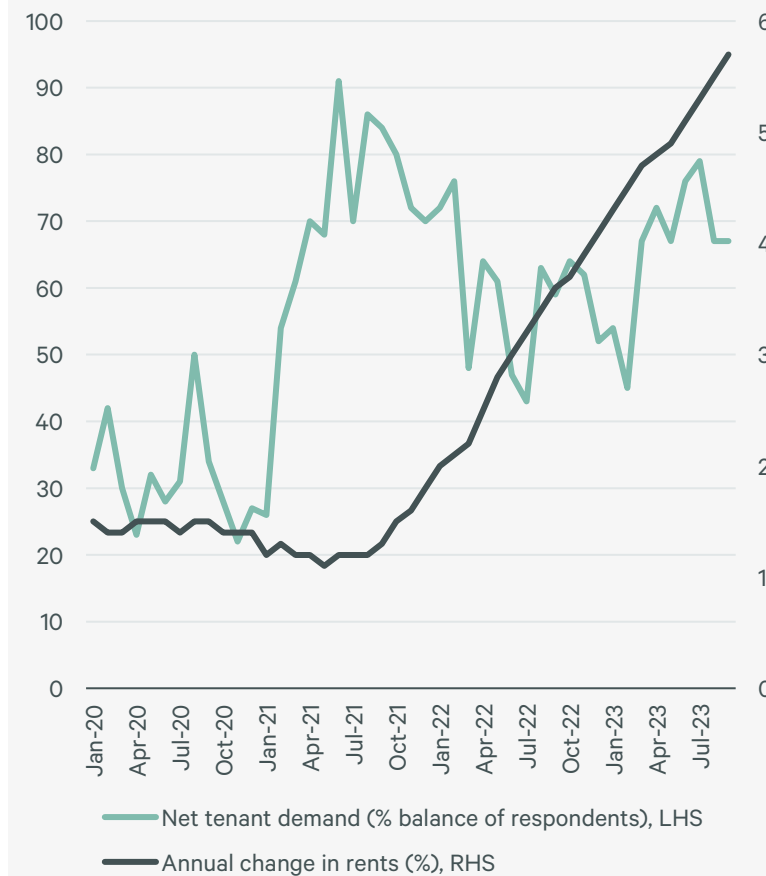
As well as the positive return outlook, investors will be buoyed by the broader economic recovery and interest rate stability, which will provide greater pricing certainty. The viability of forward funding opportunities should also improve as construction costs stabilise, and inflation recedes.

Investment activity could also be boosted by the significant number of stabilised assets coming to the market in 2024. A challenge is that these buildings will only contain one stair core, which shrinks the investor pool considerably. Albeit this may improve as greater clarity emerges on the new regulations.

However, investors will need to be confident that we have reached the peak of the interest rate cycle, which means activity could be weighted towards the second half of 2024.

Overall, as at Q3 2023, there was an estimated £2.1bn of transactions under offer and £3.5bn of opportunities on the market. This provides a strong foundation to support investment activity throughout next year.

**Figure 18: Net tenant demand and change in rents**



Source: RICS, ONS

Specifically, investment into Single-Family BTR will continue to be strong in 2024. Despite overall BTR investment falling in 2023, the Single-Family Housing (SFH) sector deviated from the trend, recording the highest level of investment so far.

However, the sector could face challenges next year. Generally, investors are not taking development risk and are fully reliant on housebuilders to deliver homes. Currently, the challenging sales market is benefitting the sector as housebuilders aim to de-risk their schemes through a SFH strategy. However, this may change as conditions in the sales market start to improve in 2024. This could be a challenge for the sector, meaning investors will need to find alternative routes to market.

BTR yields, having expanded throughout 2023, will be more stable in 2024, particularly considering the interest rate outlook. A further expansion is expected in early 2024, but this will be limited and continue to be mitigated by strong rental growth. H1 2024 could provide a strong indication of pricing, as fund redemptions lead to the sale of several good-quality stabilised assets.

## Acute supply and demand imbalance to persist

Across the broader private rented sector, the supply and demand imbalance will continue to worsen in 2024. Higher interest rates and tax changes have made buy-to-let increasingly unviable in recent years, [with many landlords opting to leave the sector](#). An estimated 150,000 rental properties have now been sold since the start of 2022, when the Bank of England began raising the base rate.

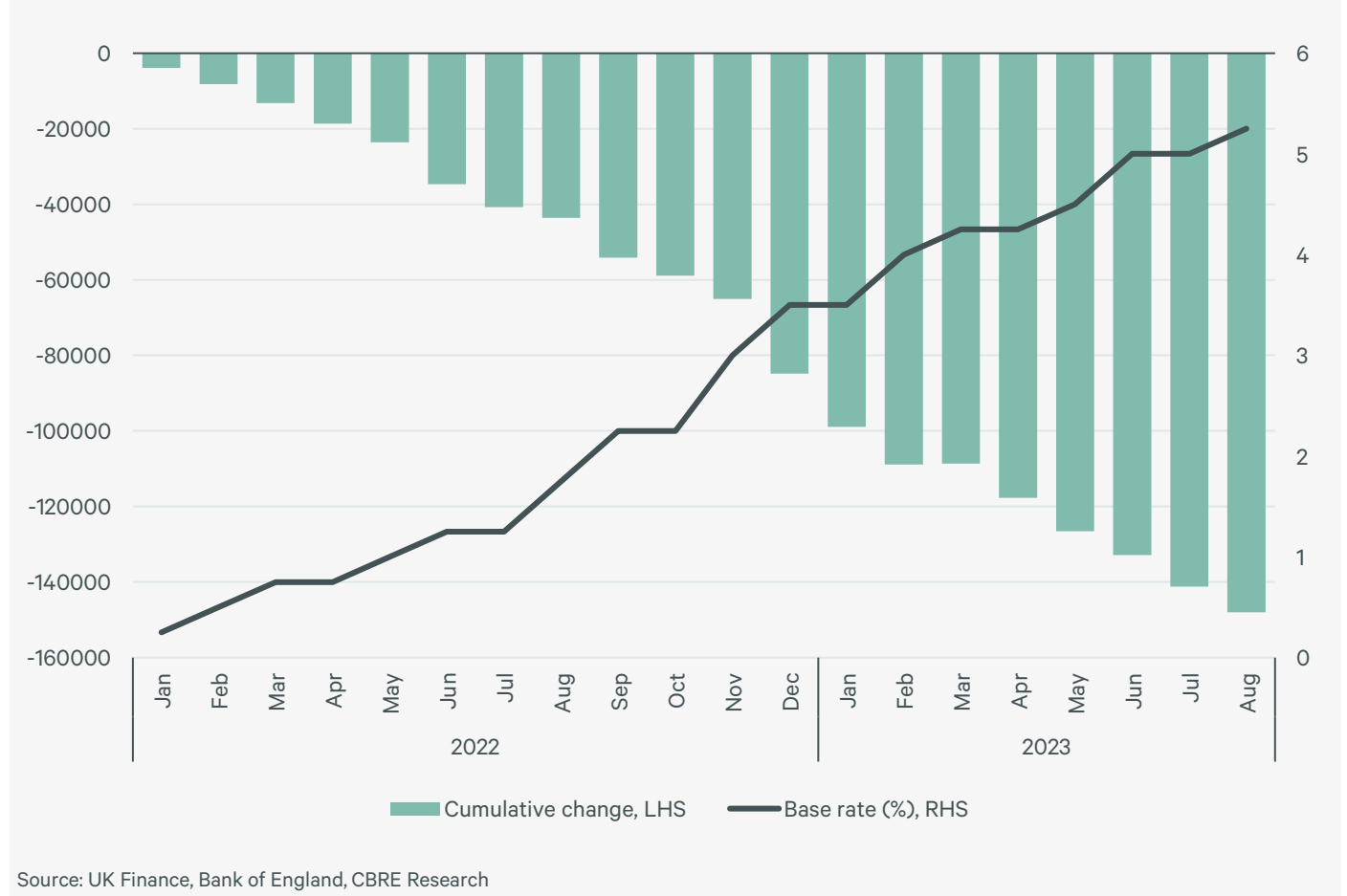
In addition, BTR delivery is being hampered by high construction costs, labour shortages, and more expensive debt. New fire safety regulation, including the need for a second staircase in tall buildings, will also impact viability and the supply of BTR homes throughout 2024. The failure of several contractors, with the potential for additional filings in 2024, will also compound the lower delivery of BTR stock.

[Recent data](#) shows that BTR construction starts in H1 2023 were less than half of the level recorded in the same period of 2022. This will result in a significantly lower level of completions in 2024.

In contrast, demand from tenants will remain strong. The Royal Institute of Chartered Surveyors (RICS) continues to report an extremely high level of tenant demand across the sector. And our data shows consistently high occupancy levels, averaging 97% across operational buildings. Operators are also reporting strong lease-up rates.

These factors mean rent growth will continue to be strong. The latest data from the ONS recorded average rents in England rising by 6% year on year, the highest on record. We expect a similar rate of growth to persist in 2024. And, as illustrated by our inaugural [Multifamily Index](#), the BTR sector will likely outperform the broader headline level of growth.

Figure 17: Net reduction in outstanding Buy-to-Let loans and Bank of England base rate



Source: UK Finance, Bank of England, CBRE Research

# Affordable Housing

**Demand for Affordable Housing will remain strong. The sector will continue to face challenges, but investment activity is expected to rebound strongly in 2024.**

This will be bolstered by For-Profit Registered Providers (RPs) unencumbered by legacy stock. In contrast, traditional RPs will need to invest in the safety and quality of their existing portfolios rather than expanding them.



## Key Takeaways

### 01

The sector's strong fundamentals, coupled with the improving macroeconomic backdrop, will mean activity in the Affordable Housing sector rebounds strongly in 2024. This will be driven in large part by For-Profit RPs that do not need to retrofit and upgrade existing stock.

### 02

However, the supply of new homes will continue to struggle as most traditional RPs focus on their existing portfolios. This will require a significant level of CapEx, which will result in a further reduction in development programmes across the country. In addition, a challenging funding backdrop will create further obstacles for new supply from traditional providers.

### 03

In the absence of any new Government scheme to assist homebuyers in 2024, more private units will continue to switch to shared ownership. This will boost supply across this tenure. However, new regulation of this market segment means some RPs will need to re-evaluate their business models.

### 04

The challenges facing the sector will continue to drive mergers and acquisitions throughout 2024, with several already in the pipeline.

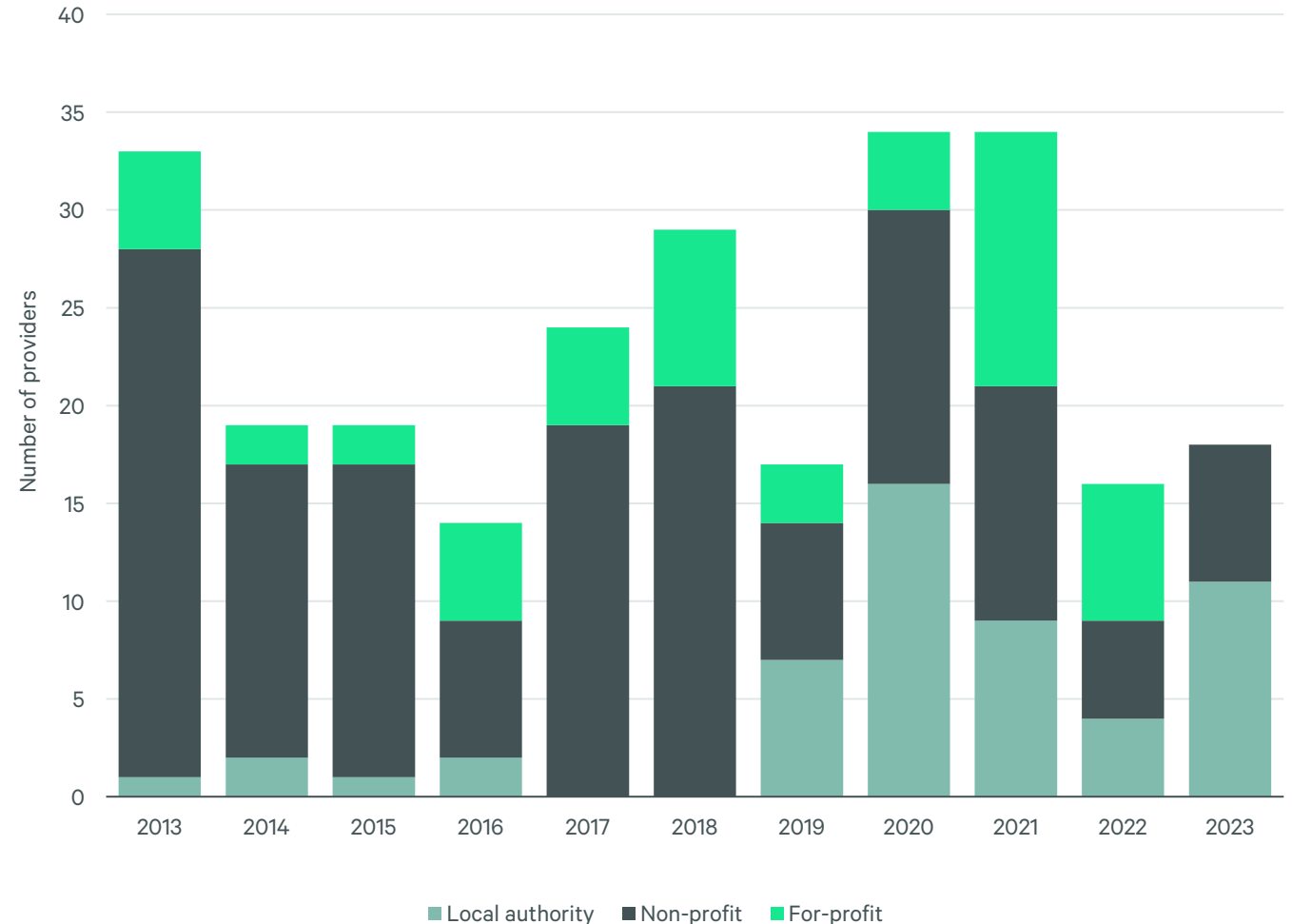


Investment activity will rebound strongly as we head into 2024, in line with falling inflation. This will be largely driven by For-Profit RPs that are unencumbered by the need to retrofit legacy stock and can continue to expand their portfolios. In addition, it appears increasingly unlikely that another rent cap will be introduced, which will provide certainty and underpin investor confidence.

However, there are some headwinds facing the sector. Many providers will struggle to increase supply in 2024. This is particularly true for the traditional RPs that need to focus on improving the safety and quality of their existing stock. Current estimates suggest that repair and maintenance costs across the sector have increased by £1.5bn in just four years. These pressures will continue into 2024, with the Regulator of Social Housing estimating that capitalised repairs and maintenance costs will increase by a further 30% from 2022/23. This is coupled with the fact that construction costs have increased significantly. As a result, the G15 group of London Housing Associations confirmed that its members are reducing development programmes by up to a third. This will be mirrored across the country, translating into a lower delivery of new affordable homes in 2024 from traditional RPs.

The funding backdrop will also continue to hamper traditional providers in 2024. Specifically, the higher cost of debt is adding pressure to RPs' finances, meaning more are seeking loan covenant waivers from lenders. In addition, the sector's credit rating is on a downward trajectory, meaning less access to investors.

Figure 19: Registrations of affordable housing providers

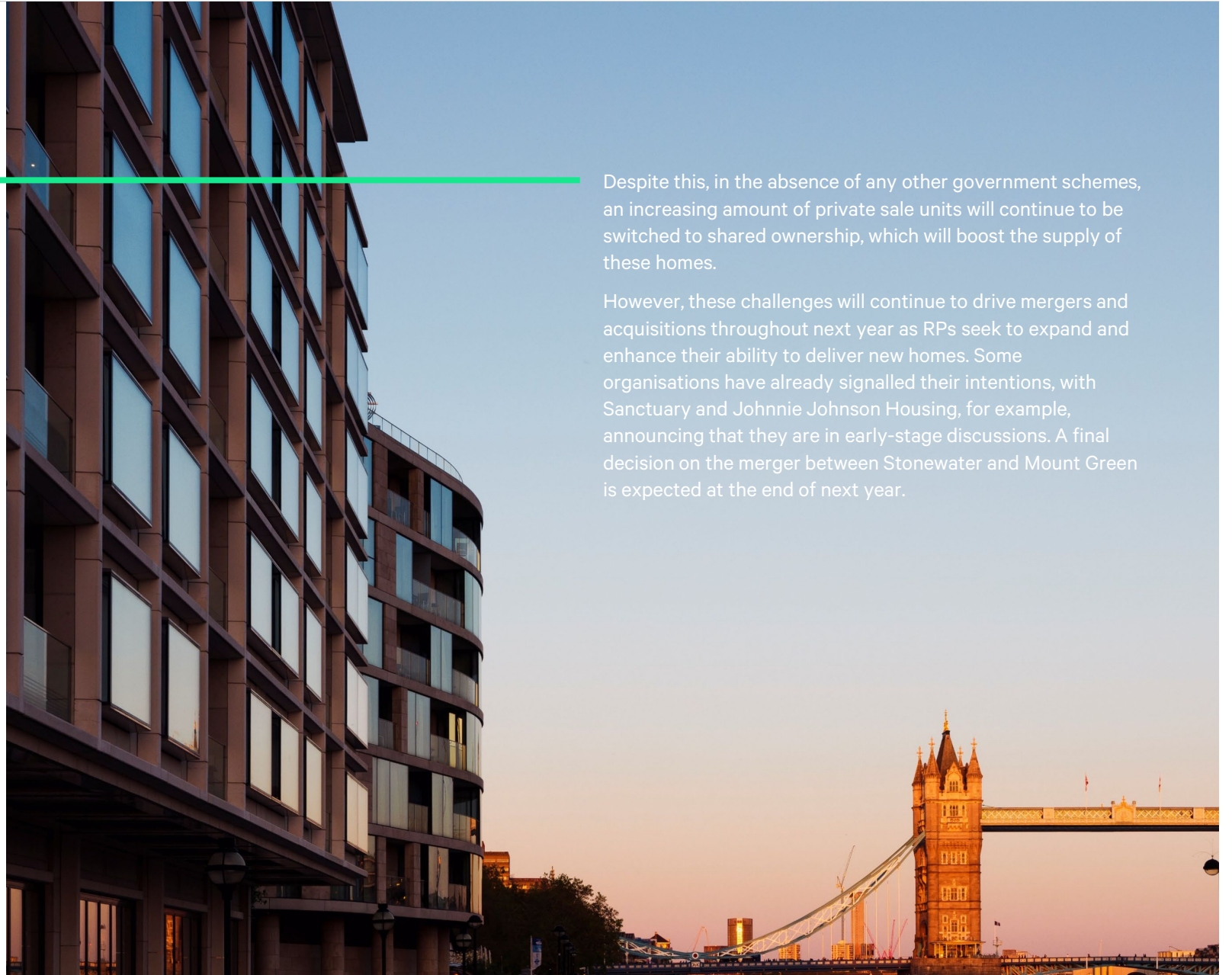


Source: Regulator of Social Housing

New shared ownership regulation could also have an impact on existing business models by lowering rental growth prospects. The annual rent increases of new shared ownership homes will change from its current measure of Retail Price Inflation (RPI) plus 0.5%, to a new cap of Consumer Price Inflation (CPI) plus 1%. Based on historic data over the last decade, this would equate to an average annual rent increase 60 basis points lower than the current RPI measure. In addition, the floor for shared ownership rent increases moves from 0.5% to 0%. This means that rents cannot be increased if CPI is -1% or lower, albeit this scenario is very unlikely. The resulting lower rent growth across shared ownership may mean some RPs will need to re-evaluate the performance of their portfolios.

Despite this, in the absence of any other government schemes, an increasing amount of private sale units will continue to be switched to shared ownership, which will boost the supply of these homes.

However, these challenges will continue to drive mergers and acquisitions throughout next year as RPs seek to expand and enhance their ability to deliver new homes. Some organisations have already signalled their intentions, with Sanctuary and Johnnie Johnson Housing, for example, announcing that they are in early-stage discussions. A final decision on the merger between Stonewater and Mount Green is expected at the end of next year.



### STOCK RATIONALISATION TO BE A MAIN THEME IN 2024

The benefits offered from acquiring existing tenanted stock mean the stock rationalisation market has increased significantly in 2023. This will continue to be a major feature of the sector in 2024 as RPs seek cost-effective strategies to deliver on their performance and financial objectives.

The new Tenant Satisfaction Measures (TSMs), that came into effect in April 2023, may also play a part in driving this rationalisation. These are provided to the Regulator of Social Housing to allow them to assess which landlords may need to improve their provision to tenants. The current timeline seeks to publish the first year of TSMs in the autumn of 2024 and, as such, may drive further stock rationalisation of low scoring assets.



# Purpose-Built Student Accommodation (PBSA)

**The PBSA sector continues to be defined by an acute supply and demand imbalance. Student numbers in the UK are at record highs, which is driving strong demand for accommodation.**

However, the supply of available beds is not keeping pace with this demand and is increasingly limited by planning constraints and viability challenges. As a result, rental growth prospects for the sector remain strong.



## Key Takeaways

# 01

A record high student population and broader demographic trends will continue to drive strong demand for PBSA next year. The fall in demand from students from the European Union (EU) will continue to be offset by increased demand from international students outside the EU.

# 02

Falling A-level grades and tighter entry requirements will continue to drive an increase in the number of students attending lower and medium tariff universities. This will result in additional demand for PBSA where these universities are located.

# 03

The supply of new PBSA will continue to be limited by several factors including onerous planning requirements and the need to modernise existing stock, further compounding the current shortfall of 580,000 beds. Supply will be further constrained by the availability of Houses for Multiple Occupation (HMO), which are a key accommodation option for many students.

# 04

Investment activity across the sector has been robust and will further improve in 2024. This will be underpinned by robust operational metrics and the strong return outlook.



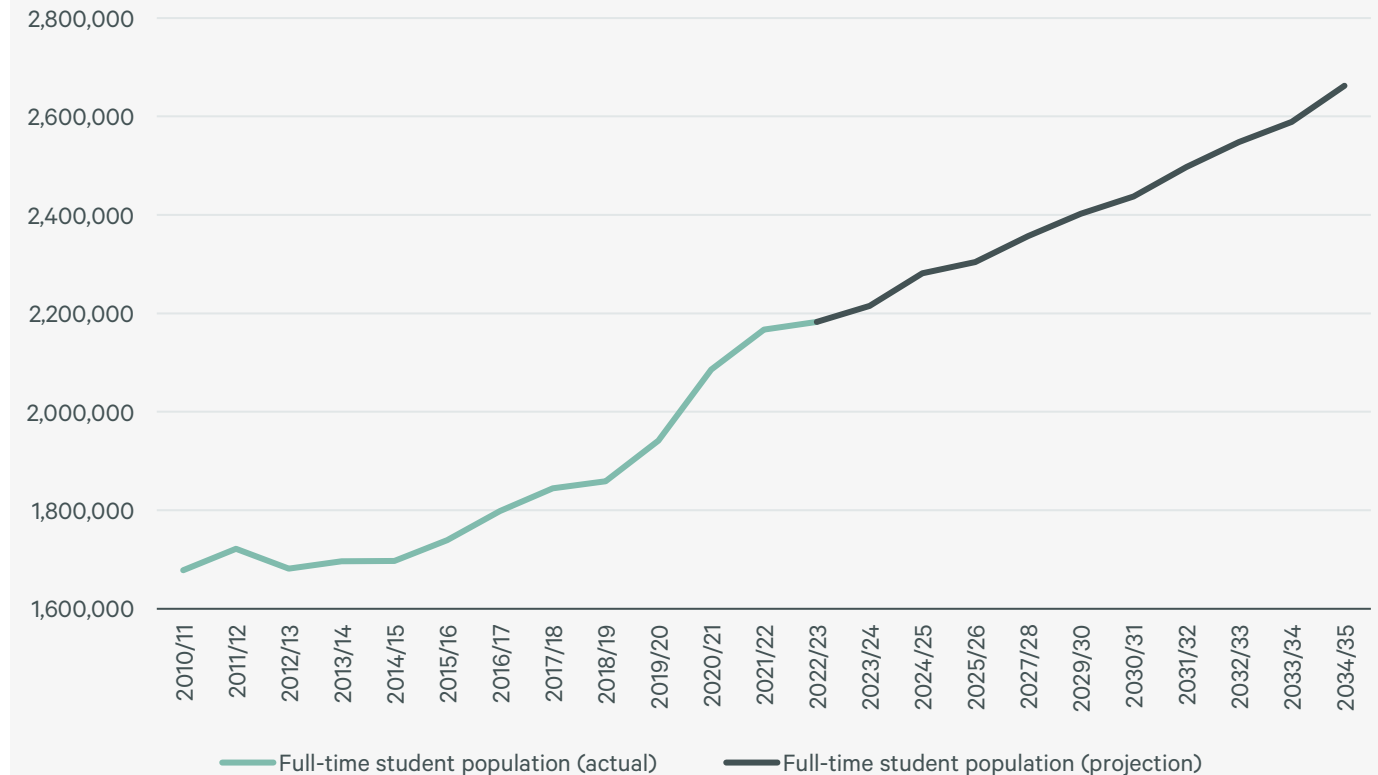
## Increased demand at medium and lower tariff universities

With the UK student population currently at its highest ever level, PBSA demand is set to remain strong in 2024. This will also be underpinned by broader demographic trends. The Office for National Statistics forecasts that the population of 18-year-olds in England will increase by another 5%, or 30,000 people, in 2024.

Demand for university places will also be robust in 2024. The Universities and Colleges Admissions Service (UCAS) showed that while acceptances were down slightly from the previous academic year, they are still 24% higher than the pre-pandemic level in 2019. The fall in students from the European Union (EU) will also continue to be offset by strong demand from international students outside the EU. This is reflected in data from the UCAS, which shows that applications from international students overall rose by 2% for the 2023/24 academic year. This was entirely driven by non-EU students, which increased by 4% year on year to 116,000. Overall, this will translate into a continued increase in university participation rates and strong demand for PBSA.

However, there has been a shift from higher to medium and lower tariff universities. This is being driven by a general fall in A-level grades following the post-pandemic return to exams, along with some universities tightening entry requirements due to over-recruitment throughout the pandemic. We expect this trend to continue over the next few years and will result in additional demand for PBSA beds in areas where these medium and lower tariff universities are located.

**Figure 20: Full-time student population, UK**



Source: Higher Education Statistics Authority Student Records 2010/11 – 2021/22

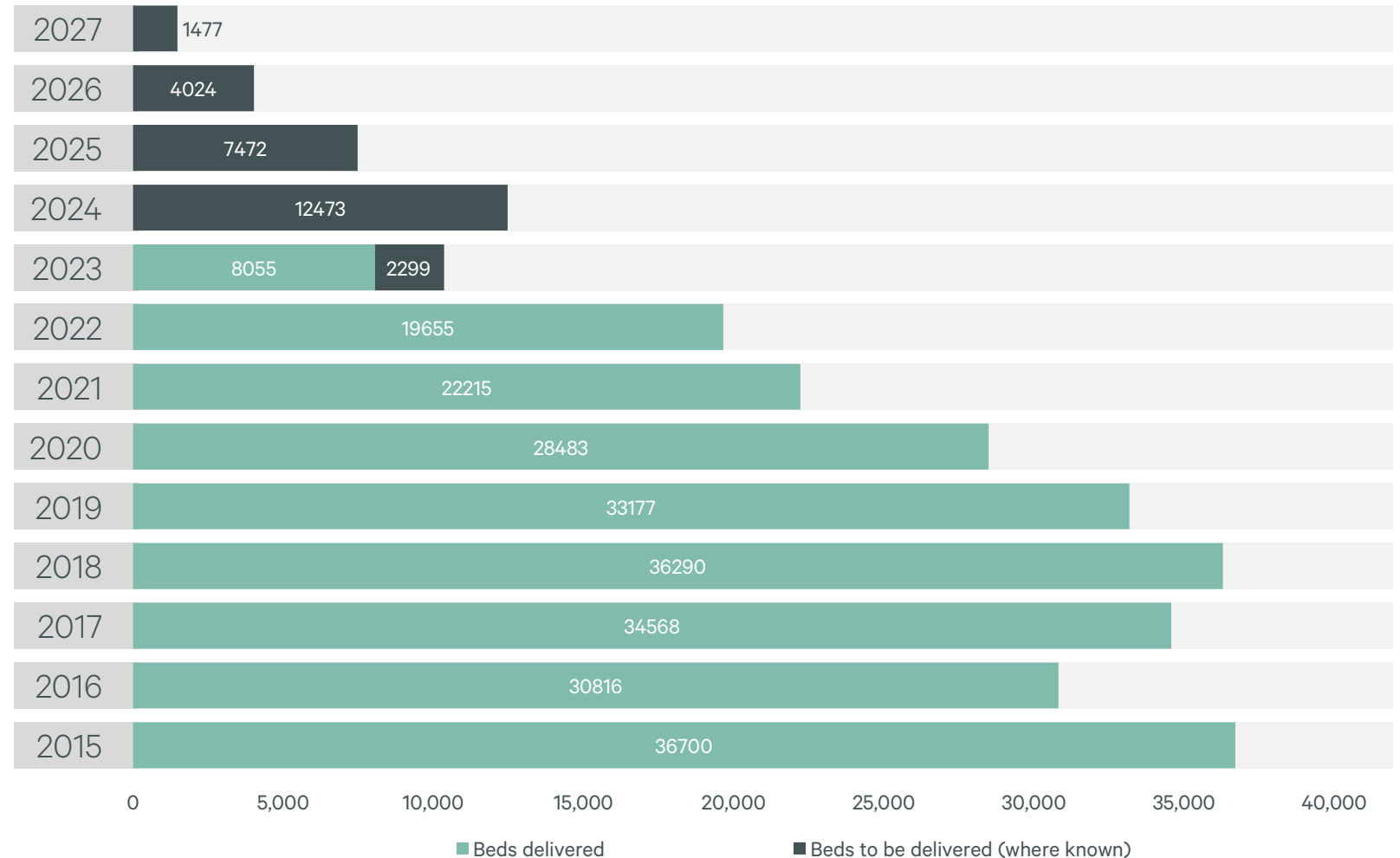
Note: Projections are provided by the Higher Education Policy Institute that forecast an additional 358,000 university places needed by 2035.

**HIGH OCCUPANCY AND A STRONG RETURN OUTLOOK WILL DRIVE INVESTMENT**

Challenges in the private rented sector will also place upward demand pressure on PBSA in 2024. Our research highlighted [that an estimated 400,000 private rented homes have been sold in recent years](#). This will contribute to a shortage of Houses for Multiple Occupation (HMO), which form a key accommodation option for many students.

The shortage of new PBSA development will carry forward into 2024 as completions in 2023 have been at an all-time low, compounding an estimated shortfall of 580,000 beds nationally. Several factors, including high construction costs, increasingly onerous PBSA planning requirements, higher debt costs, and changes in building regulations, will continue to hinder new development throughout 2024. Any new supply will be focused on a handful of towns and cities with strong occupational markets and where viability is less challenging.

**Figure 21: Supply of PBSA beds**



Source: Student Crowd, CBRE Research

Supply will also be further constrained as some older university stock will need extensive modernisation to meet student expectations and remain competitive. As a result, there will be a greater opportunity to reposition legacy PBSA in 2024, particularly where a new build is unviable.

Despite the challenging environment, PBSA investment was robust in 2023. As debt markets stabilise, inflation recedes, and the economy recovers, PBSA investment will further improve in 2024.



Investment will also be buoyed by the strong operational metrics and income growth prospects for the sector. Occupancy for the 2023/24 academic year is the strongest on record, and many schemes were at least 98% booked by Spring 2023. The same is expected next year, which is underpinning strong rent growth projections. Unite is predicting rent growth of 5%+ for the 2024/25 letting cycle.

Investors will also have a greater focus on specific opportunities next year. For example, the management of highly reversionary assets offers the potential for strong returns and will drive investment in certain markets with robust fundamentals.

### SAFETY REGULATIONS AND ENERGY EFFICIENCY ARE KEY CHALLENGES IN 2024

New Building Safety regulations and proposed energy efficiency standards will be two key challenges for the PBSA sector in 2024. With two-thirds of the UK's PBSA stock built before 2015, most buildings won't meet certain measures stipulated by the latest safety regulations. For example, the need for a second staircase if the building is taller than 18 metres.

In addition, investors and lenders are increasingly targeting energy efficient assets to meet their own environmental and sustainability strategies.

From an investment perspective, these factors will channel investment away from older, less efficient assets which do not meet modern regulations and towards forward funding opportunities for new development. For owners, these measures will necessitate considerable CapEx to upgrade and refurbish their existing buildings next year.



08

# Operational Real Estate

---

Trading performance across many OPRE sectors – particularly hospitality and healthcare – has been strong. Enhanced trading and softening pricing, driven by cost of capital, have created pockets of value across the markets. The outlook for 2024 looks positive, with significant volume of transactions already building throughout OPRE markets.

# Senior Living

The UK Senior Living market is still in its infancy and the penetration rate is still low compared with other mature markets. Investors will be attracted to structural changes in demand and changes to the UK care system.

The sector is unlikely to see yield compression until the sector begins to mature. We anticipate a slow start to 2024, followed by a steady increase in sales rates in the Senior Living market over the next 12–24 months.



## Key Takeaways

# 01

Despite a slowdown in the housing market, demand for age-appropriate housing is rising. We anticipate that the sales velocity in the Senior Living market will begin to recover over the next 24 months.

# 02

With the success of existing rental product offerings, we anticipate an increase in appetite from investors in the sector. Affordability will be a key driver for the sector if more schemes are developed for a mid-market offering.

# 03

A key focus for operators and investors going forward will be on occupier need, particularly on providing community, care, and wellbeing across schemes, rather than the focus being on the real estate.

# 04

We anticipate more authorities will see senior housing more holistically in providing a wider social benefit and contributing to their housing needs.



# Cautious optimism in the Senior Living market

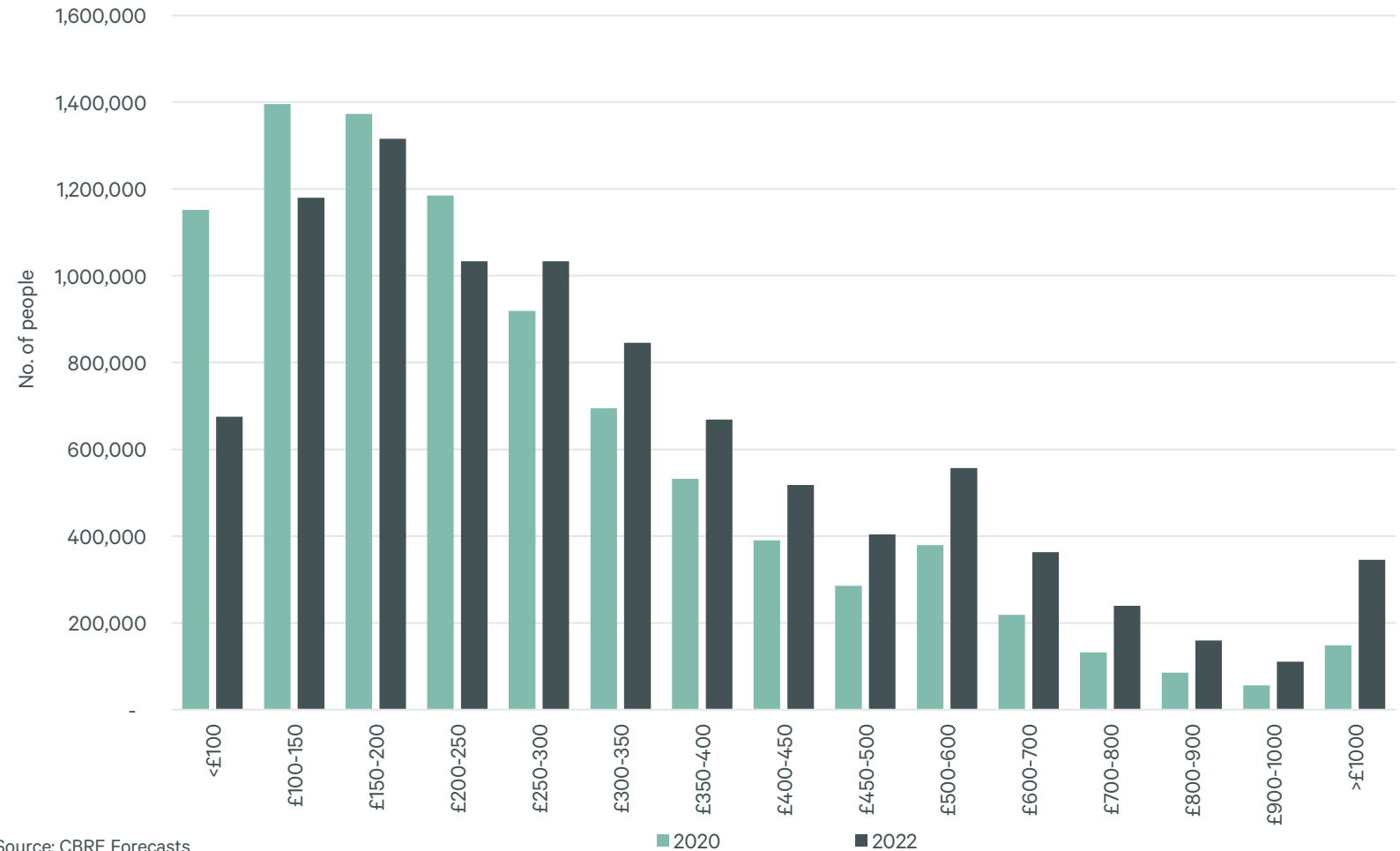
## STEADY RETURN IN SALES

The UK Senior Living market is still in its infancy and the penetration rate is a fraction of what is seen in other mature markets. According to the Housing Learning and Improvement Network (Housing LIN) most of the elderly in the UK are living in mortgage-free residential dwellings that traditionally are sold prior to moving into a retirement living unit. The increasing number of over 75s is driving demand for retirement housing. However, developers are currently targeting those with housing wealth over £500,000. This is further increasing the lack of supply in the mid-market. We anticipate a slow start to 2024, followed by a steady increase in sales rates in the Senior Living market over the next 12 – 24 months.

## INCREASED TENURE FLEXIBILITY

Take up of rentals has grown substantially over the last five years, which in turn has attracted institutional and fund investors who are seeking to diversify their portfolios, into the market. Rental offerings may enable mid-market operators to develop in mid-affluent locations, where a for-sale model may not be viable. Affordability will be a key driver for the sector if more schemes are developed for a mid-market offering.

Figure 22: UK 65+ Population house price distribution



Source: CBRE Forecasts

■ 2020 ■ 2022

### GOVERNMENT TASKFORCE REPORTING IN 2024

Commissioned in May 2023, the Government's Older People's Housing Taskforce is accelerating recommendations to stimulate growth and investment in the sector, particularly within the mid-market. While there will be a General Election in 2024, it is hoped any new government will embrace the recommendations put forward. The focus of the taskforce will be on the consumers, the planning system, investment into the sector, and fiscal incentives.



### FOCUS ON URBAN DEVELOPMENT AND AMENITIES

Senior living developers are moving towards more central locations so seniors can be closer to public transport and amenities. In addition, there will be a new spotlight on tailoring the communal living space and services provided by the operators that complement the needs of seniors, focusing on the needs of the occupiers rather than purely on the real estate.

### LAND

Senior living operators struggle to compete with the mainstream commercial and residential developers for land, which limits their ability to expand. At present, there is an inconsistency in how planning authorities view senior living developments, treating them as mainstream residential schemes rather than housing with care. We anticipate more authorities will see senior housing more holistically in providing a wider social benefit and contributing to their housing needs.

# Hotels

**Travel demand will be strong in 2024. While consumers' disposable income will remain somewhat constrained by high inflation, international tourist numbers are expected to remain high.**

Inflation will also impact labour costs, which will raise operational costs. As a result, we expect Average Daily Rates (ADRs) to increase to maintain profit levels.



## Key Takeaways

# 01

Demand from tourism will be strong in London, which remains the key hotel destination in the UK. Other key cities likely to attract high tourism numbers are Edinburgh and Dublin.

# 02

2024 could be the first post-COVID year that sees occupancy rates surpass 2019 levels. Currently, UK occupancy outside London has been lagging on pre-pandemic levels, but expected demand for domestic leisure will help hotel occupancy.

# 03

The strong Average Daily Rate (ADR) and Revenue per Available Room (RevPAR) reported by UK hotels is expected to continue into 2024.

# 04

Yields are expected to flatten once pricing meets an equilibrium among buyers and sellers. The investment volume is expected to be lower than previous years due to the high cost of financing. However, investment activity will resume once interest rates reach a peak and refinancing occurs.



# Recovery brings cautious optimism to hotels sector

## RECOVERY OF INBOUND TOURISM

Tourism numbers have continued to recover this year, with Heathrow passenger numbers above 2019 levels. This has been a welcome boost for the sector considering the challenging economic environment. In 2024, we expect to see continued growth in inbound tourism stays, particularly in London, which will continue to cement its reputation as a global destination for business, entertainment, and events.

## DOMESTIC LEISURE

There has been strong demand for domestic leisure destinations. This has particularly benefitted regional UK areas including coastal towns. One of the main drivers of domestic tourism has been the UK’s weak pound, which has led to many households opting for holidays within Britain. With household finances remaining squeezed into 2024, the staycation trend is likely to continue next year.

## KEY PERFORMANCE INDICATORS

The hotel sector has experienced strong trading performance, with Average Daily Rate (ADR) and Revenue per Available Room (RevPAR) well above 2019 levels – up 20% compared to the corresponding month in 2019. Heading into 2024, it remains to be seen if operators can continue the high ADR levels achieved since the COVID-19 recovery. In particular, the challenge will be for ADR to keep pace with cost inflation. Regional markets may find this particularly challenging due to the reliance on demand from domestic visitors.

## OPERATIONAL PERFORMANCE

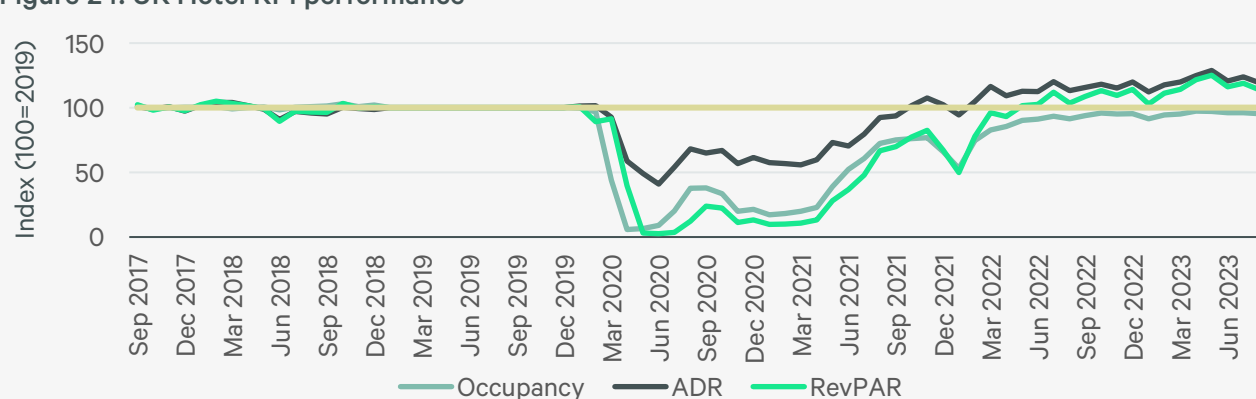
High levels of inflation has caused operational costs to rise, particularly in utility costs and payroll PAR, which has risen 17% from last year. Despite the rise in costs, year to date Gross Operating Profit PAR is up 18% for the UK on a year on year comparison. 2024 is still expected to see relatively high inflationary levels, which means operators will have to be proactive with revenue management and stringent cost control.

Figure 23: Heathrow passenger numbers, seasonally adjusted



Source: Heathrow Traffic Statistics

Figure 24: UK Hotel KPI performance



Source: HotStats

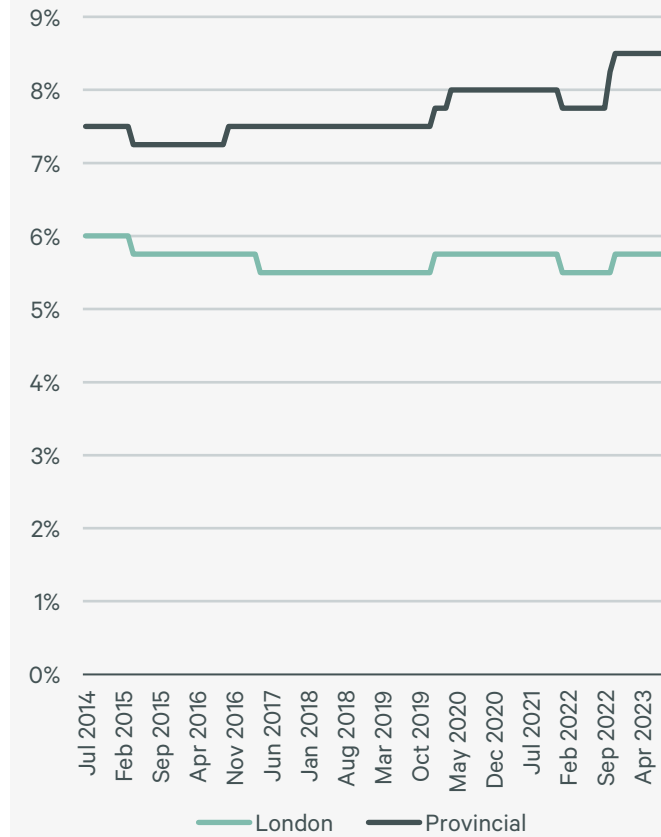
### INVESTMENT MARKET

The rise in interest rates has tempered investor transaction activity within the UK hotel market. However, we think the interest rate cycle has reached its peak and expect rates to remain at this level for at least the first half of 2024. Once financing stabilises, yields should begin to stabilise too, which should end the ongoing buyer-seller pricing disparity and result in more hotel investment activity.

### 2024 TREND

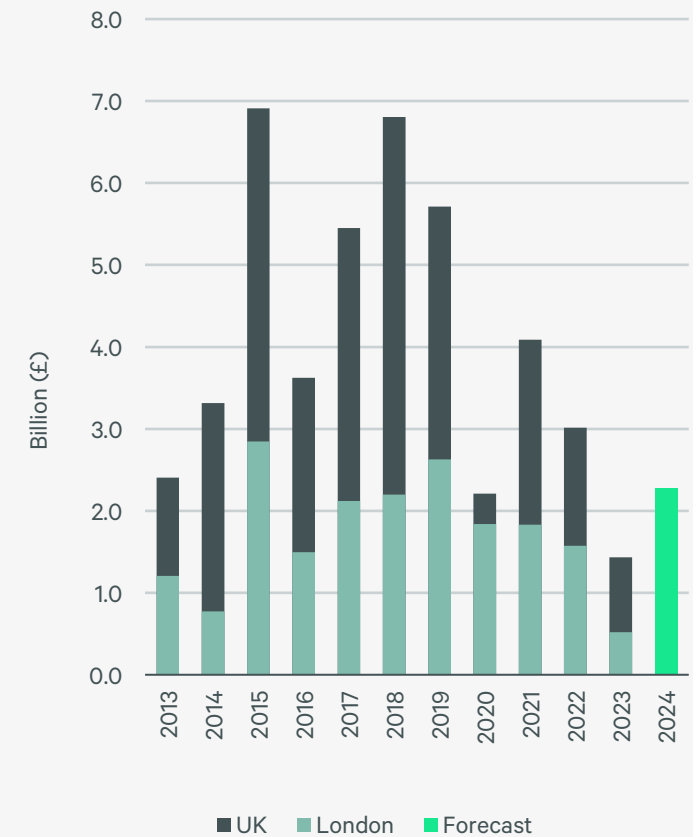
As operators realise the impact technology can play in hotel operations, it is likely to play a central role in benefitting customer travel experience. With artificial intelligence (AI) consistently improving and becoming more prevalent in use, AI has the possibility to improve the personalisation of customers' experience. For instance, online bookings would recognise the guest's preferences for their stay and propose suitable room suggestions. Guest check-in could become more personal too, with staff already having knowledge of guest hospitality preferences.

Figure 25: UK prime hotel yields



Source: CBRE Research

Figure 26: UK hotel investment volume



Source: CBRE Research

# Healthcare

**Investment conditions will remain challenging in 2024.**

Still, opportunities may exist for investors who have a detailed understanding of the healthcare sector which is currently characterised by strong operational performance, rising demand and attractive lease features.



## Key Takeaways

### 01

The flight to quality for healthcare assets will continue in 2024 as real estate investment remains challenging in a high interest rate environment. Stronger operational performance, particularly around occupancy and fee rate rises, is creating attractive opportunities for experienced healthcare investors able to price operational risk in a more dynamic market.

### 02

Investor focus has pivoted from income driven strategies to more value-add, yet investment volumes remain weak, while initial yields are at a 15-year high. The tighter lending market means that real estate investors are looking at opportunities where real estate can be the catalyst for operational improvement in care home businesses. Higher yields, strong underlying cashflows, better understood ESG characteristics, and ability to create value through CapEx, is likely to drive investment in 2024.

### 03

Healthcare development activity is slowing due to increasing build costs, lower tolerance for risk, a more challenging planning environment, and the increasing cost of debt. This will exacerbate the demand and supply imbalances across the healthcare sector moving forward. This imbalance may explain the fact that residual land values continue to hold up.

### 04

Independent sector operational performance will continue to strengthen as demand is driven by the UK's ageing population, increased private/public sector integration, and rising NHS waiting lists.

### 05

Staffing will remain a challenge across all healthcare subsectors with the ongoing nursing shortage across Europe. However, in the UK, the successful sponsorship of overseas staff will continue to relieve pressures.



# Operational performance continues to improve

## PRIVATE ACUTE HOSPITALS

Operational performance continues to improve as growing NHS waiting times lead to increased private/public sector integration and patients seeking faster treatment times. We expect private patient volumes to continue to increase in 2024, with 7.75 million people waiting for NHS treatment, and over 40% waiting for more than 18 weeks.

Greater willingness from the NHS to engage with independent providers will strengthen the private acute hospital market and could lead to opportunities for investment.

As with other healthcare sectors, a shortage of nurses across the UK and Europe remains a key challenge and is a risk to operational performance moving forward.

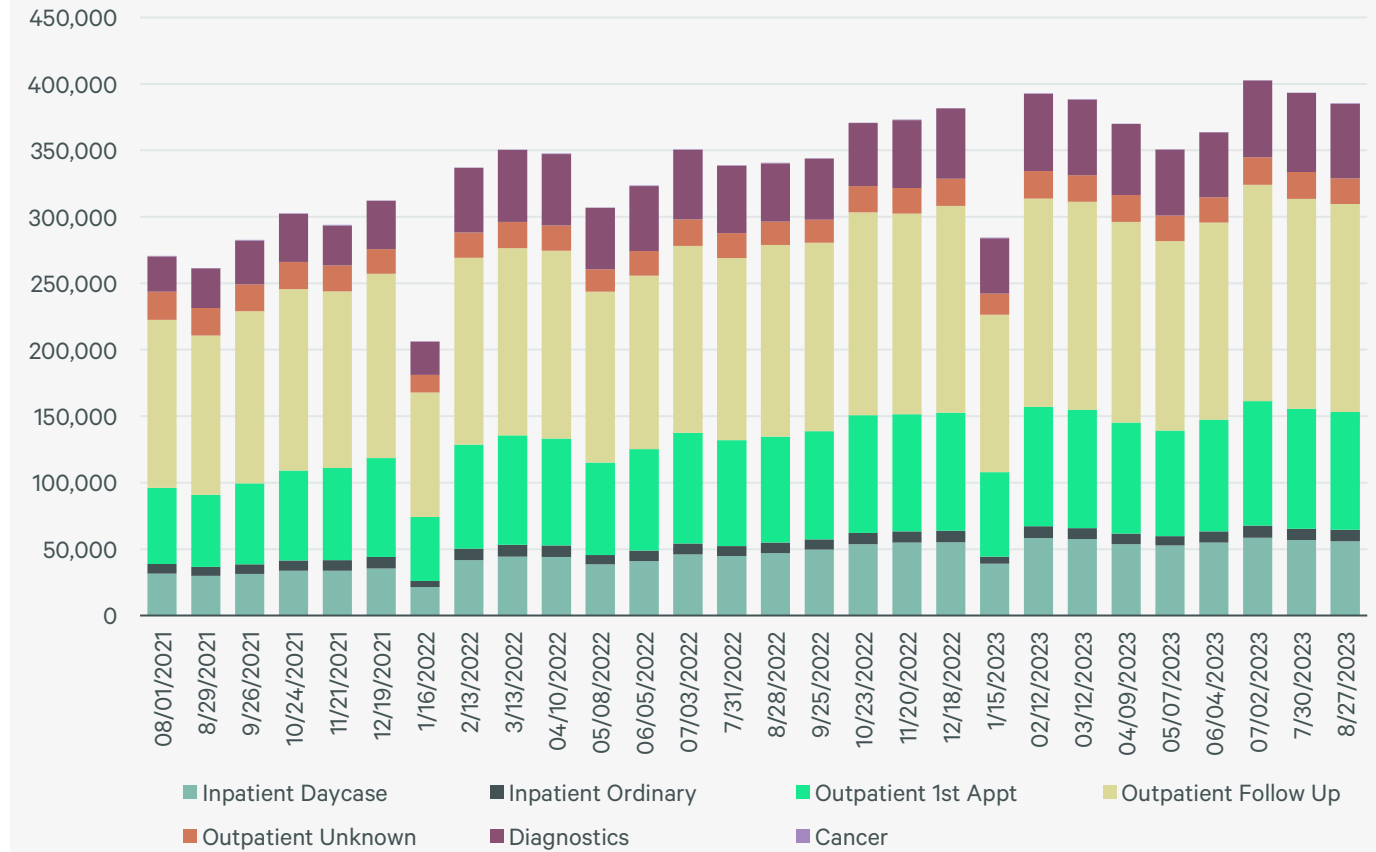
As the UK’s ageing population with more complex care needs seeks increasingly specialist treatment, we have seen the emergence of private acute sectors such as diagnostics, cancer care and post-acute rehabilitation. In line with patient demand, we expect operators and investors will show more interest in these sectors in 2024. These emerging sectors also represent a good opportunity to ease pressure off the NHS.

## PRIMARY CARE

Primary care remains an important part of delivering healthcare services in the UK, and investors are attracted to occupational lease lengths that can provide long-term income in a secure market with robust demand dynamics.

Primary care real estate investment activity fell in 2023 with the two dominant players, PHP and Assura, turning their focus to rent reviews and asset management. We saw increased rental growth in 2023, and it is expected that this will continue in 2024, with the financial viability of new development continuing to be a challenge.

Figure 27: NHS elective activity by independent sector providers



Source: NHS Digital

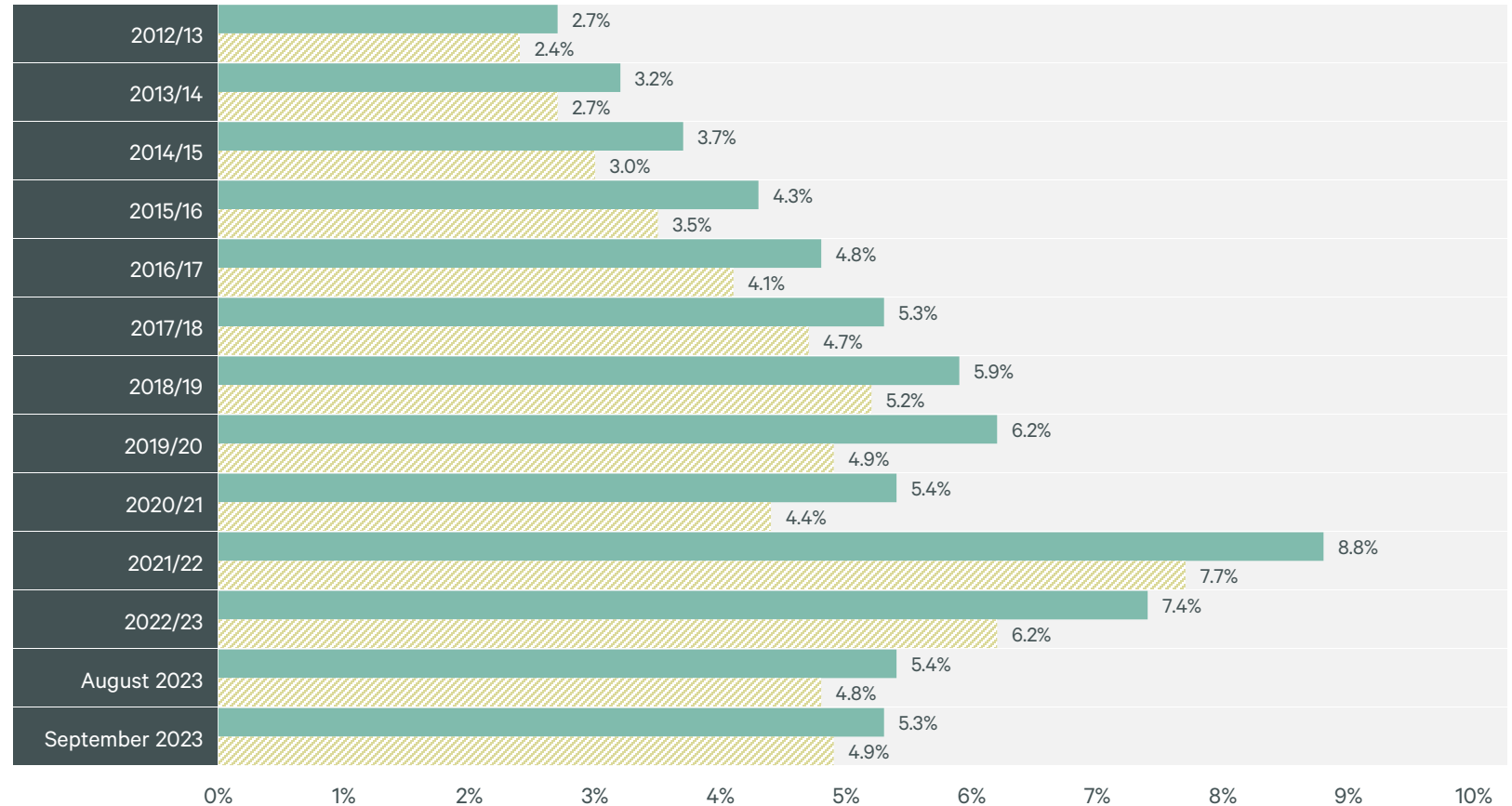
### ELDERLY CARE

Elderly care providers are reporting strong operational performance, with occupancy returning to pre-COVID levels, steady growth in both private and local authority fee levels, and better management of agency costs. Operational performance is expected to remain strong throughout 2024 for all independently provided healthcare sectors. The ongoing nursing shortage will likely remain a challenge in 2024, although the successful sponsorship of overseas staff in the UK has alleviated pressures. Recruitment and staff retention should be a focus for operators.

Increasing build costs, planning challenges, and the availability of debt have slowed care home developments in the UK. This will further exacerbate the undersupply of purpose-built market standard beds. In line with elderly population projections, we estimate that there will be an undersupply of all care home beds by 2030. However, in the right locations with the most experienced and high-quality operators, there may be opportunities to invest in and extend existing mid-tier assets. Annualised elderly care investment volumes are down 60% because of the high base rate, reflecting investment activity across wider real estate sectors. In 2024, there may be increased activity driven by financial stress, and we anticipate that good opportunities will exist for equity-backed investors who have a detailed understanding of the sector and are willing to take on risk.

We have seen a flight to quality and a wider pricing differential across the quality spectrum. Despite yields weakening, per bed values have remained robust for best-in-class assets with the strongest covenants, which highlight the importance of underwriting elderly care investments.

Figure 28: Adult social care vacancy rates, whole sector estimate



Source: Skills For Care  
 Note: ASC-WDS data since Mar-23

■ Care homes with nursing      ▨ Care homes without nursing

## SPECIALIST CARE HOMES

Infrastructure funds are drawn to the Government-backed income in this sector. Still, there remains uncertainty whether strong historic fee growth will continue to be a feature in 2024, considering a slowdown in 2023. This is driven by signs of further budget constraints on local authority commissioning expected next year.

Inflation and staffing have been a challenge for all operational sectors and will remain a challenge for specialist care sectors in 2024. Successful sponsorship of overseas staff, like in the elderly care sector, has started to alleviate staff shortages and the impact on operational performance.

The Government agenda for increased supported living care commissioning remains in place, where care needs are better serviced in independent settings, with closures of defunct residential facilities inevitable.

2024 will likely see a cautious return to the sector by investors, following the contraction in 2023. M&A activity will be focused on the largest, most well-capitalised groups targeting existing strong and growing platforms. The Disabilities Trust acquisition of Sue Ryder's neurological services in 2023 demonstrated a continued market appetite for well-run services, in high demand and with high barriers to entry, offering complex care services.

Partnerships between M&A and real estate investors have historically been a feature of the sector. This is likely to be less prominent in 2024, where real estate investors will likely target mature, stable operational platforms, and new high-quality assets.

From an investment perspective, these factors will channel investment away from older, less efficient assets which do not meet modern regulations and towards forward funding opportunities for new development. For owners, these measures will necessitate considerable CapEx to upgrade and refurbish their existing buildings next year.



# Leisure, Food & Beverage

**We expect investors will deploy capital with caution in 2024.**

Many investors will consider only the most sought-after opportunities that are backed by the strongest tenants in dominant locations, offering alternative use underwrites. While we anticipate there to be good traction for these opportunities, the secondary market is likely to remain relatively illiquid unless vendors are willing to accept significant pricing movement.



## Key Takeaways

### 01

We anticipate further softening of yields in the first half of 2024 and suppressed trading and investment volumes. We also consider that the gap between prime and secondary assets will widen as investors retreat to proven assets of good quality in strong locations.

### 02

We predict further distress in 2024 as lenders and operators face ongoing operational challenges, as well as a gap in debt/equity, following a reduction in capital values. Lenders and stakeholders will need to make increasingly difficult decisions in 2024, something which has been part of the 'wait and see' approach in 2023.

### 03

Operational performance will remain under pressure in 2024, but some of the record high costs seen in 2023 will start to ease. Discretionary spending and disposable income remain issues across the country, which could impact revenues.

### 04

Operators and owners seeking to raise capital might turn to traditional sale and leaseback, or a form of commercial ground rent. This is now seen as a way of retaining operational control to place the capital receipts elsewhere rather than purely value accretion through the transaction itself.

### 05

Across the pub sector, with an increasing supply of investment properties coming to market, we expect the pressure to sell for several vendors will result in continued pressure on yields and pricing.



### HOLIDAY PARKS

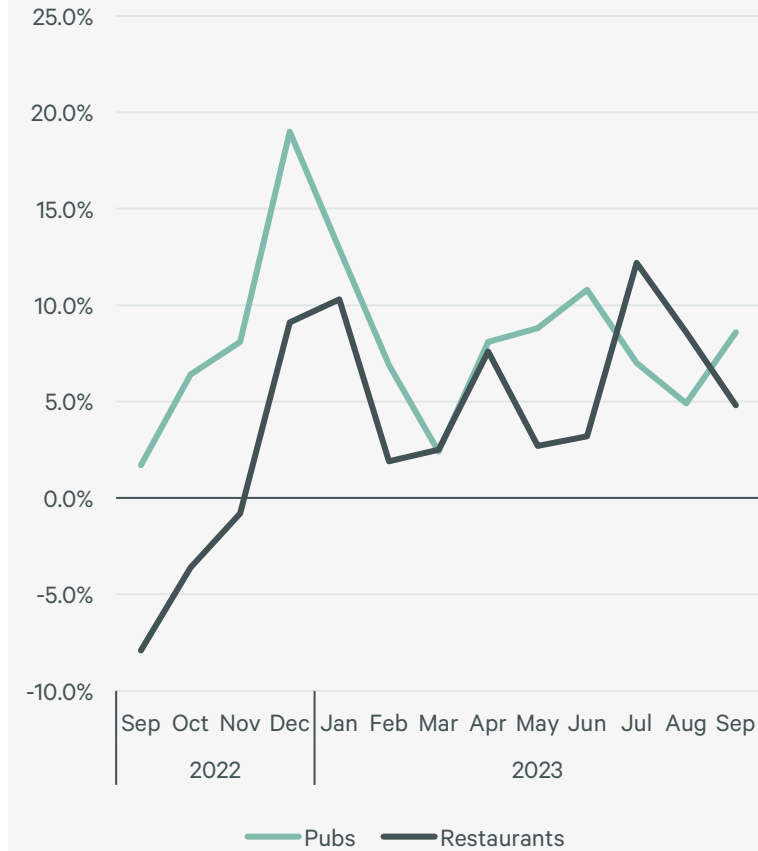
Holiday hire revenues have been positive, which has increased “in-park” spend. However, home sales have come under increasing pressure and have caused a drag on financial performance. General pressure on costs and overheads have also been significant in 2023. Still, we see this easing in 2024, especially regarding wages, COS and utilities. We expect continued strong performance in 2024 from the core park revenue streams, but home sales are not predicted to return to former levels until the wider economic picture is more positive.

### HEALTH AND FITNESS

The market value of the UK’s health and fitness club sector reached an all-time high of £3.52bn in 2023. This reflects the ability of operators to increase membership prices above inflation without suffering detrimental levels of membership churn. Evidently, consumers continue to prioritise their health and wellbeing expenditure against the backdrop of the cost of living crisis. However, with a continuous squeeze on disposable income levels and sustained high OpEx levels, we anticipate operators will implement more innovative membership options in 2024, which will appeal to a broader range of consumers.

Racquet club operators have proven to be the most successful through 2023, owing to expansive premium facilities that have retained an affluent membership base.

Figure 29: Pubs and restaurants sales recovery



Source: CGA RSM Business Tracker

We expect racquet club operators to continue a CapEx intensive expansion strategy, with new club openings and refurbishments anticipated throughout 2024. Similarly, the low-cost segment has cemented its appeal amongst those looking for flexibility and affordability, with the number of budget gyms reaching an all-time high of 869 in 2023 (up from 645 in 2018). Mid-market operators will continue to focus on recovery and estate consolidation with refurbishment schemes deployed selectively. We anticipate that there will be some corporate activity in 2024 amongst the racquet and mid-market operators.

### PUBS

Significant price increases are driving sector recovery, with strong growth throughout the year despite the cooler summer. The sector now looks forward to the critical Christmas season, and although there is no World Cup, there is hope that business will not suffer from the rail strikes which dampened trading last year.

As stabilised trading positions become more certain and reduced margins will be a longer-term feature, we expect to see an increasing amount of corporate activity and rationalisation going into 2024. In the investment markets, concern around rental levels and tenant liquidity means that real estate fundamentals and vacant possession underpin are critical to investment pricing. With an increasing supply of investment properties coming to market, we expect the pressure to sell for several vendors will result in a continued pressure on yields and pricing.

# Self Storage

**Self storage continues to demonstrate its operational resilience and attractiveness as a growth sector.**

This looks set to continue in 2024, underpinned by robust trading performance and heightened investor appetite, seeking to gain access to high-quality management teams and freehold backed businesses.



## Key Takeaways

# 01

Operators will continue to demonstrate strong bottom-line operational performance. Some softening is expected in occupancy, but this will be largely contained, with operators increasing rental rates at close to or ahead of inflation.

# 02

Investor interest will remain at record highs, driven by the opportunity to invest into an undersupplied nascent sector, underpinned by strong structural and sociodemographic change.

# 03

A lack of opportunities will continue to hamper investors' ability to access the sector at scale, resulting in a more flexible approach to partnerships and joint ventures.

# 04

Alternative store concepts including drive-up offers and new technology will continue to diversify the UK self storage market, as it is built into new supply coming online.



## Self storage continues to mature as an asset class

The UK self storage sector is expected to remain one of the most sought-after OPRE asset classes, underpinned by a defensive income stream, efficient cost base, and a widening customer appeal from consumers, businesses, and students. Consumer and business demand continues to grow, but a low level of customer awareness still prevails alongside a slow but expanding store development pipeline able to cater for the existing demand.

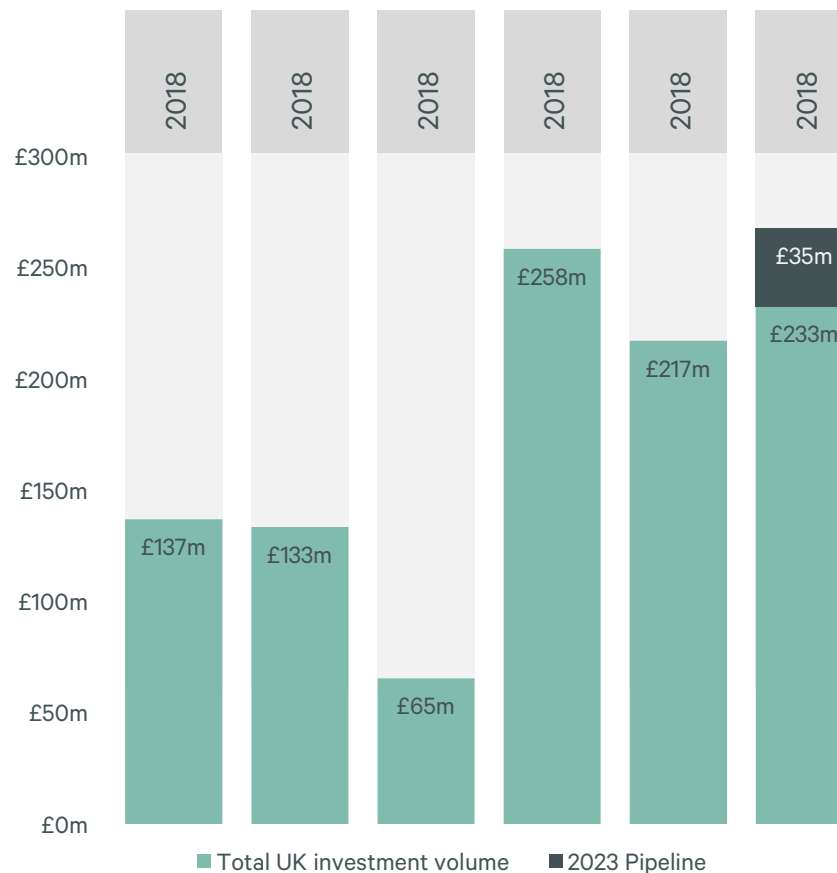
### INVESTMENT MARKET

The UK investment market outlook remains positive. The sector remains a strong conviction play for major investors and with operators remaining committed to scaling their existing businesses via organic or inorganic acquisitions. In 2024, we expect to see a number of high-profile deals announced, both in regional and core London markets. Debt remains a key underwriting consideration.

### OPERATIONAL MARKET

Operators remain cautiously optimistic in spite of a softening residential home market and cost of living crisis. Operators continue to cite a strong non-discretionary demand from consumers going through periods of change from death, divorce and renovation. Business demand has remained robust off the back of a lack of suitable, good quality alternatives. 2024 is therefore likely show strong operational performance with operators looking to optimise SEO and maximise conversion rates.

Figure 30: UK self storage investment volume



Source: CBRE Research

### SECTOR GROWTH

UK self storage has positioned itself as a valuable income producing asset. Yields have compressed as the asset class has grown in notoriety for both customers and investors. Heading into 2024, and the sector is expected to continue to receive interest from investors who look to benefit from the long-term profitability of the sector.

### CUSTOMER DEMAND

The key driver of customer demand for storage is moving homes. If mortgage rates are expected to remain high in 2024, this will impact households whose mortgages come to renewal. This could have the double effect of restricting house sales and reducing the number of available homes to rent. The result could see far less households moving homes. Conversely, a growing demand driver for storage is student storage, where students use storage during their summer break. This demand offers a consistent source of revenue compared to other cyclical demand drivers.

### 2024 TREND

The rise in container-based storage has offered new types of supply in the sector. Indeed, in 2024 more operators are expected to utilise the operational advantages that arise from container-based storage. Container storage offers operators a solution to regulatory and planning barriers that may have limited access to certain markets.

# Roadside & Automotive

**There is increasing appetite amongst investors,** particularly from specialist funds, pension funds, and long income funds for well-located, income-producing assets.



## Key Takeaways

# 01

2024 could see more platform purchases than 2023 as owners assess their portfolio strategies amid the growing adoption of electric vehicles. Operator mergers are also likely to continue as operational value in the sector remains strong.

# 02

Transaction demand will remain for core assets. The adoption of a dual fuel strategy for sites will encourage existing tenants and facilitate new market entrants.

# 03

Car dealerships will continue to be adversely impacted by agency dealerships; a model set to cause further disruption in 2024.

# 04

The UK Government extended the date for the cease of all petrol and diesel new vehicle sales from 2030 to 2035. The coming year will bring additional scrutiny on regulatory decisions that impact the sector.



# The Roadside & Automotive sector in a changing environment

## A MARKET SET FOR CHANGE

2024 is expected to bring acquisition opportunities for core single site and portfolio assets. Petrol Filling Station (PFS) assets saw high profile mergers in the last year but heading into 2024, the sub-sector remains disaggregated with multiple operators in effect.

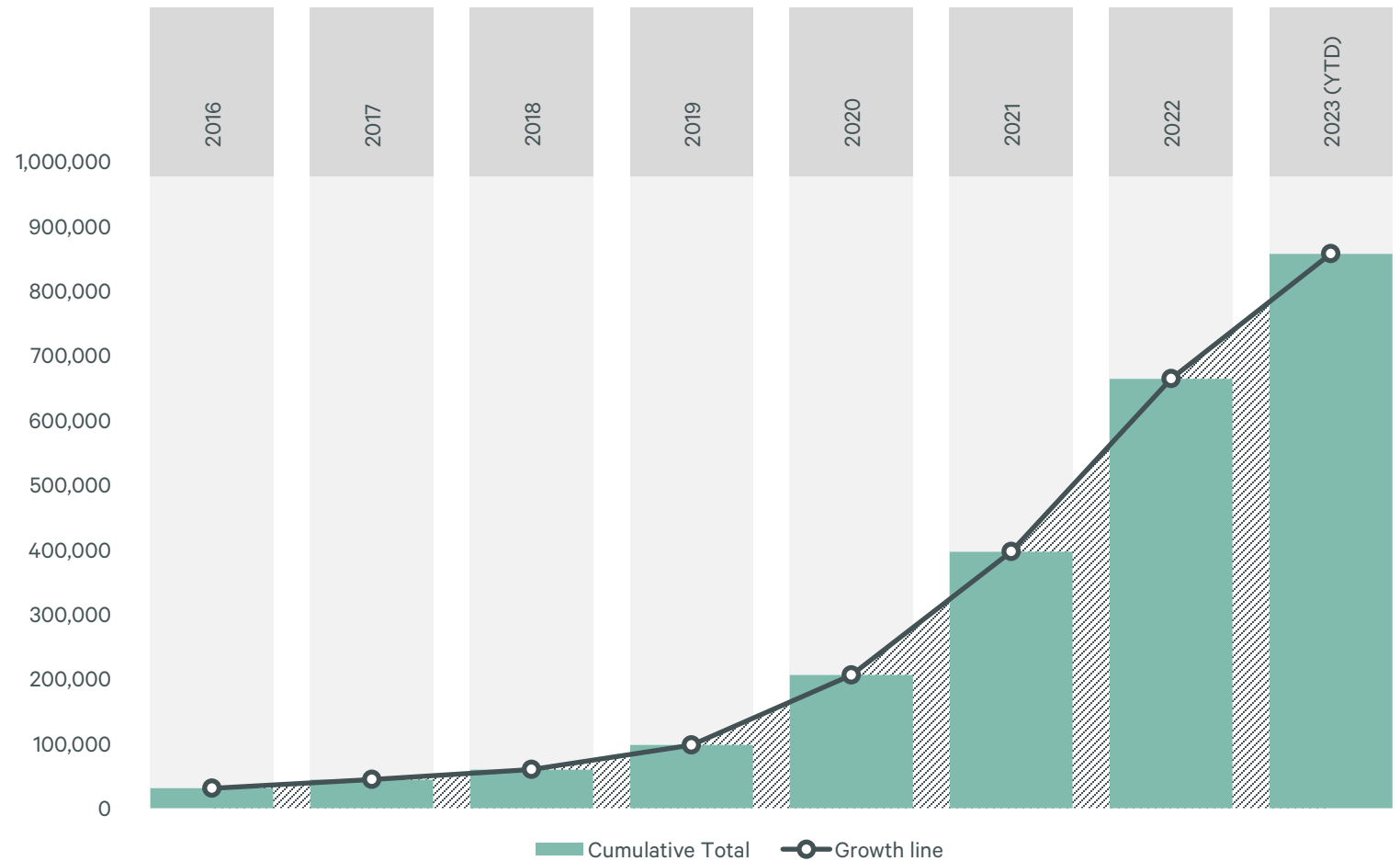
Car dealerships will also see a change in 2024, with a shift towards agencies set to uproot the long-established franchised dealer market. As car manufacturers opt to work with few dealer partners, the expectation is tenures will move from lease to ownership.

## ELECTRIC VEHICLE DISRUPTION

2024 will see portfolio consolidation as owners assess upholding or disposing of Petrol Filling Stations. It remains to be seen the strategy owners take, but the inflow of institutions to the sector indicates investors are in the process of identifying the right strategies for their portfolios.

Operators are increasingly aware of the need to implement a dual fuel strategy on their sites. 2024 will continue to see the adoption of electric vehicle charging. Car showrooms have also seen an influx of new market entrants. The number of alternative-fuelled cars on the road will hit one million in 2024, with the uptake of electric vehicles set to continue.

Figure 31: Number of electric vehicles in the UK



Source: SMMT

#### WHAT TREND WILL POSE A CHALLENGE IN 2024?

Demand for electric vehicles has risen sharply in the last four years. The percentage of new car sales that are electric vehicles has reached 23%, rising from just 3% in 2019. 2024 will likely see the UK surpass one million electric vehicles on the road. Roadside & Automotive operators will need to adapt their sites to be suitable for electric vehicles.



While the widescale adoption of electric vehicles may seem a far distant challenge, the reality is adapting portfolios to facilitate electric vehicles is a necessary solution to what is a long-term challenge to the sector. Operators can gain competitive advantage by adapting their portfolios early.

The UK Government's decision to delay the ban on all petrol and diesel new vehicle sales to 2035 provides additional time for asset owners to modify their sites. However, given the UK's commitment to net zero targets, some car manufacturers are committing to delivering all-electric vehicle fleets by 2023 regardless of regulatory uncertainty.

09

# Data Centres

---

Demand for data centre space in London remains strong, though a lack of available power in London will be an inhibitor to growth.

## Key Takeaways

# 01

Colocation data centre take-up in London in 2024 is expected to challenge the all-time high of 139MW set in 2022, given continued strong demand from cloud service providers and enterprises.

# 02

More organisations are likelier to let space in data centres that are further afield than data centre submarkets such as Slough and Docklands, where availability has declined to new lows in 2023.

# 03

Difficulties securing capacity and rising development and operational costs at data centres within the M25 will lead more enterprises and hyperscalers to look for space at facilities further afield.

# 04

Data centre providers are expected to see significant demand for capacity from companies with artificial intelligence (AI) requirements in 2024.

# 05

A lack of available power at key electricity substations (e.g. Iver) in west London will inhibit growth in the UK capital.



## Appetite for data centre space to remain strong

### TAKE-UP IN LONDON EXPECTED TO REACH NEW HIGH

Take-up in London next year (130MW) is expected to be almost triple 2019 levels (53MW) due to continued strong demand from hyperscalers and enterprises.

Large American technology companies are taking ever greater amounts of capacity in the UK capital to ensure demand for their digital services can be met in future.

Equally, enterprises need capacity from colocation data centres to form the foundation of their transformation efforts.

Much of the take-up next year is expected to happen in the submarkets where hyperscalers already have a significant presence. Slough, in the western corridor of London, is a prime example.

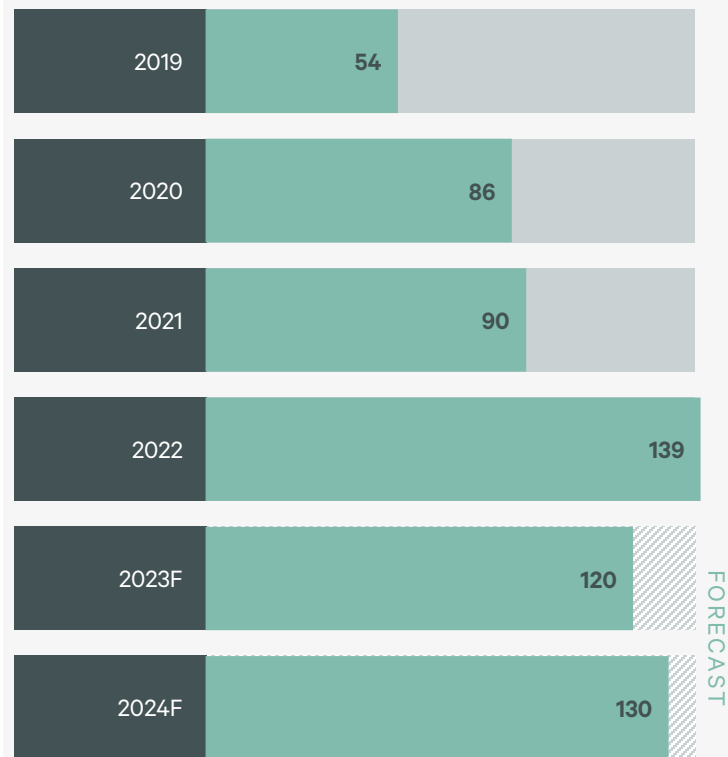
### UPTICK IN ARTIFICIAL INTELLIGENCE DEMAND EXPECTED

Data centre providers are expected to see significant demand for capacity from companies with artificial intelligence (AI) requirements in 2024.

Requests are expected to come mostly from technology service providers and AI start-ups, as opposed to hyperscalers or enterprises. The former group are wholly dedicated to the provision of services based on AI technology and, therefore, need capacity in significant quantities now. The latter group are considering what their requirements are relative to their IT strategies and are, therefore, expected to take longer to issue requirements for now.

Demand for AI-related capacity in London will help drive the vacancy rate to single digits (9.1%) for the first time by the end of 2024.

Figure 32: London data centre take-up (MW), 2018-2024F



Source: CBRE Research

### MORE ORGANISATIONS WILL LOOK FURTHER AFIELD FOR CAPACITY

More organisations are likelier to let space in data centres that are further afield than the largest data centre submarkets, given the likelihood of low availability in areas such as Slough and Docklands next year.

Enterprises are having a particularly difficult time sourcing capacity, considering most new supply in London is already accounted for by hyperscalers before it is delivered. Suitable and more cost-effective capacity is sometimes more readily available in data centres located outside the M25 motorway that encapsulates London. Organisations can often serve London customers from a variety of locations, not just areas where clusters of data centres exist.

### COLOCATION RENTAL RATES TO CLIMB FURTHER

A scarcity of available space, as well as higher build and operational costs, are expected to drive rental rates for tenants of data centres considerably higher in 2024. Supply and demand are more evenly matched in London than ever – take-up even exceeded supply in 2022, and supply is barely expected to outpace demand this year.

This market dynamic, inflation, and other factors – such as a small pool of contractors that are in high demand – are conspiring to send the cost of letting capacity at colocation data centres upwards at an exceptional pace.

# 10

## Life Sciences

---

The ongoing demand for Life Sciences laboratory space will continue to outstrip supply, yet relief is on the horizon as more projects near completion and enter the market.

## Key Takeaways

# 01

Investor sentiment surrounding Life Sciences Real estate is expected to remain optimistic going into 2024. This will be particularly true for established science and technology assets in Tier 1 locations (primarily the Golden Triangle of Cambridge, London, and Oxford).

# 02

Take up rates for 2023 were broadly similar to 2022 but are expected to increase in 2024, as an estimated 2 million sq ft of new commercial lab space becomes available. Rental rates are still expected to rise modestly in the Tier 1 locations.

# 03

Venture Capital (VC) funding into the sector has been subdued relative to the peak of 2021, and that is likely to continue into 2024. However, the pension reforms announced this year could unlock billions of pounds of funding for young, fast growing Life Sciences companies.

# 04

UK Government commitment to the sector supporting the 'Scientific Superpower' vision was strengthened with a significant package of investments outlined in the 2023 Autumn Statement. However, a looming general election could stall momentum.



## Laboratory space ramp up

The outlook for growth in the Life Sciences industry remains positive, and it continues to be a key contributor to the UK economy. However, the sector has not been immune to economic headwinds in investment markets, particularly impacting start-ups and their ability to access VC funding. With public funding, there was very welcome news confirming the UK's commitment to the Horizon Europe programme to 2027, ensuring UK researchers have access to the world's largest scientific collaboration platform, and the grants and funding within. Government commitment to the sector strengthened with a £520m package of new investments outlined in the Autumn Statement.

### REAL ESTATE DYNAMICS

Investor sentiment for Life Sciences has remained positive over the last 12 months, despite the broader economic challenges facing all sectors. Transactional volumes were 74% down versus 2022, impacted by broader economic conditions, but also reflective of many shifting their focus from acquisition to delivery. We expect this to continue into 2024 with investments centred around established science and technology assets, particularly in Tier 1 locations.

In 2023, the take-up of lab space has remained at a level similar to 2022, with an estimated total of 720,000 sq ft. However, the availability for purpose-built commercial lab space in the UK remains limited and therefore constrains market movement. Still in 2024, supply will somewhat improve as we begin to see new lab space delivered. We estimate around 2 million sq ft of lab space will be completed in 2024, mostly in the Golden Triangle of Cambridge, London, and Oxford. Some notable developments include Stage 1 of Victoria House and Apex at Tribeca in London, Granta Park in Cambridge, and Nebula at Milton Park, Oxford.

Figure 33: UK Life Laboratory Science Development Pipeline (sq ft)

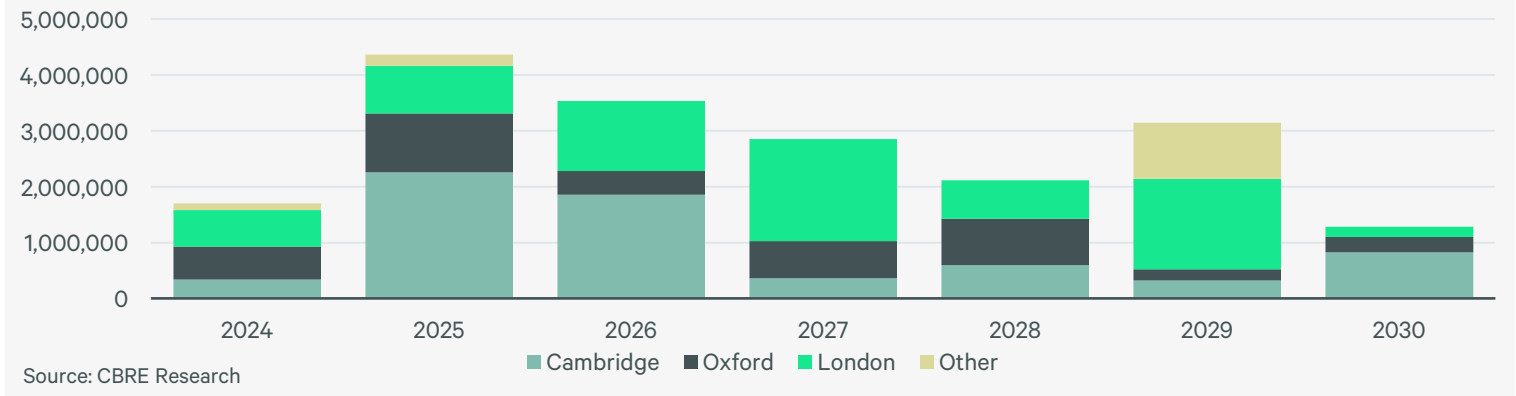
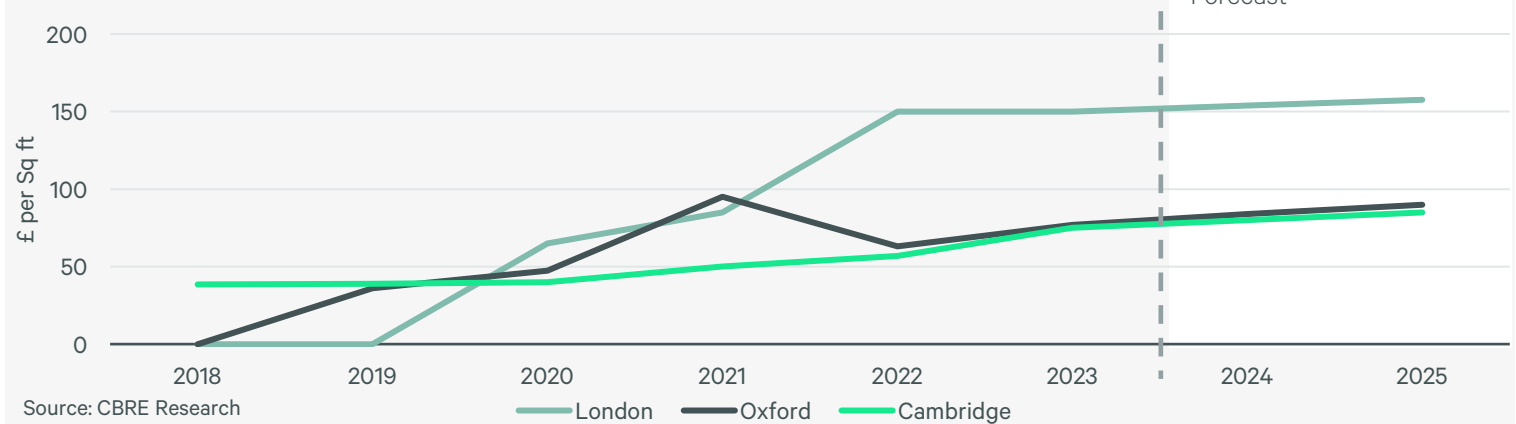


Figure 34: Headline Rents for Fitted Labs (£ per sq ft)



Beyond the South East, Manchester continues to develop its leading Life Sciences position in the North, contributing 27% of this year's total UK uptake (200,000 sq ft). Upcoming projects such as Kadans's Plus Ultra Scheme on Upper Brook Street and Bruntwood Sci Tech's City Labs 4.0 will help support Manchester's growth ambitions.

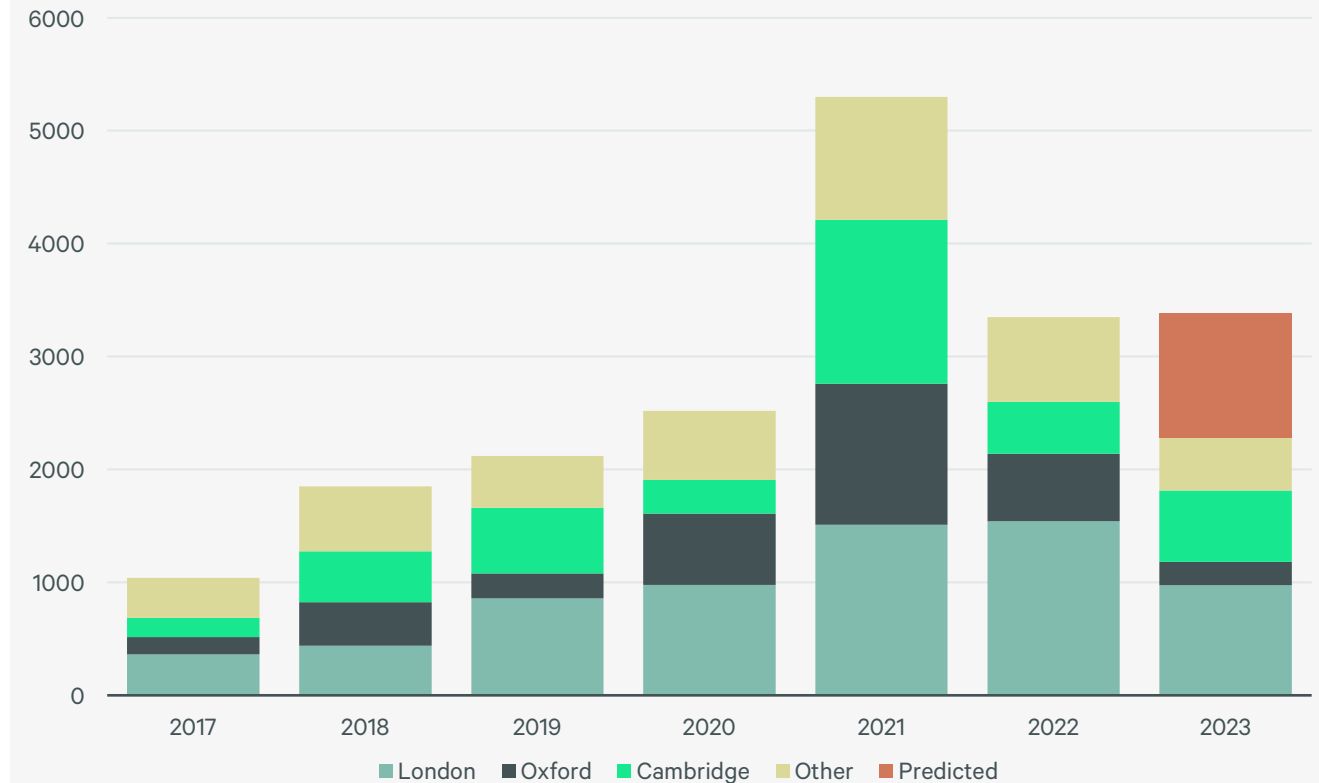
Despite the provision of new lab space, we still expect lab rents to increase in Tier 1 locations in 2024. This is likely to plateau in 2025 as we reach a more balanced equilibrium, with more supply becoming available (Figure 34).

**PRIVATE AND PUBLIC FUNDING**

Although subdued relative to the peak of 2021, the BIA estimate 2023 VC financing for UK Life Sciences companies will exceed last year's total (Figure 35). Their latest figures for Q3 2023 reveal the most robust funding period since the sector's peak in 2021. This correlates with an encouraging surge in fundraising among European companies. Looking ahead, the Government's Mansion House pension reforms could unlock billions of pounds of new funding opportunities for fast growing Life Sciences companies from institutional investors and DC pension funds.

The upcoming general election may create a level of uncertainty over the future commitment to the Life Sciences industry within the broader political agendas. In turn, this may temporarily impact market and investor sentiment.

**Figure 35: Total Venture Capital Funding raised by UK Life Science Companies (£M)**



Source: Pitchbook (All VC Pharma & Biotech, Life Sciences, AgTech, Medical Devices, Medtech, HealthTech (include related keywords) Search HQ Only)

# Contacts

---

**Jennet Siebrits**

Head of UK Research

[jen.siebrits@cbre.com](mailto:jen.siebrits@cbre.com)

**Ruth Hollies**

Senior Director, Head of European Forecasting

[ruth.hollies@cbre.com](mailto:ruth.hollies@cbre.com)

**Daniel Jones**

Analyst, Economics & Forecasting

[daniel.jones@cbre.com](mailto:daniel.jones@cbre.com)

**Steven Devaney**

Director, UK Research

[steven.devaney@cbre.com](mailto:steven.devaney@cbre.com)

**Toby Radcliffe**

Senior Analyst, UK Sustainability Research

[toby.radcliffe@cbre.com](mailto:toby.radcliffe@cbre.com)

**Simon Brown**

Senior Director, Head of UK Office Research

[simon.brown@cbre.com](mailto:simon.brown@cbre.com)

**Miranda Botcherby**

Director, Head of UK Industrial & Logistics and Retail Research

[miranda.botcherby@cbre.com](mailto:miranda.botcherby@cbre.com)

**Scott Cabot**

Director, Head of UK Residential Research

[scott.cabot@cbre.com](mailto:scott.cabot@cbre.com)

**Alice Marwick**

Director, Head of OPRE Research

[alice.marwick@cbre.com](mailto:alice.marwick@cbre.com)

© Copyright 2023. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

# Contacts

---

## **Tom Morgan**

Executive Director, OPRE, Healthcare  
[tom.morgan@cbre.com](mailto:tom.morgan@cbre.com)

## **Kenneth Hatton**

Executive Director, Head of Hotels, Europe  
[kenneth.hatton@cbre.com](mailto:kenneth.hatton@cbre.com)

## **Sarah Livingston**

Executive Director, OPRE, Healthcare  
[sarah.livingston@cbre.com](mailto:sarah.livingston@cbre.com)

## **Tom King**

Executive Director, OPRE, Leisure  
[tom.king@cbre.com](mailto:tom.king@cbre.com)

## **Oliver Close**

Senior Director, Self Storage  
[oliver.close@cbre.com](mailto:oliver.close@cbre.com)

## **Simon Galway**

Executive Director, OPRE, Roadside & Automotive  
[simon.galway@cbre.com](mailto:simon.galway@cbre.com)

## **Andrew Jay**

Head of Europe Data Centre Solutions,  
Advisory & Transaction Services  
[andrew.jay@cbre.com](mailto:andrew.jay@cbre.com)

## **Joanne Henderson**

Executive Director, Head of Life Sciences, Europe  
[joanne.henderson@cbre.com](mailto:joanne.henderson@cbre.com)

## **Kevin Restivo**

Head of Data Centre Research,  
Advisory & Transaction Services, Europe  
[kevin.restivo@cbre.com](mailto:kevin.restivo@cbre.com)

## **Richard Dakin**

Europe Head, Investment Banking  
and Debt & Structured Finance  
[richard.dakin@cbre.com](mailto:richard.dakin@cbre.com)

## **Kaela Fenn-Smith**

Managing Director, ESG Consultancy  
[kaela.fennsmith@cbre.com](mailto:kaela.fennsmith@cbre.com)

## **Richard Smart**

Managing Director, London  
[richard.smart@cbre.com](mailto:richard.smart@cbre.com)

## **Paul Farrow**

Executive Director, Head of UK Industrial & Logistics  
[paul.farrow@cbre.com](mailto:paul.farrow@cbre.com)

## **Rhodri Davies**

Executive Director, Head of UK Retail  
[rhodri.davies@cbre.com](mailto:rhodri.davies@cbre.com)

## **Luke Mills**

Managing Director, UK Residential  
[luke.mills@cbre.com](mailto:luke.mills@cbre.com)

## **Andrew Saunderson**

Executive Director,  
Head of UK Residential Capital Markets  
[andrew.saunderson@cbre.com](mailto:andrew.saunderson@cbre.com)

## **Justin Carty**

Executive Director, Affordable Housing  
[justin.carty@cbre.com](mailto:justin.carty@cbre.com)

## **Thomas Mudd**

Senior Director, Affordable Housing  
[thomas.mudd@cbre.com](mailto:thomas.mudd@cbre.com)

## **Oli Buckland**

Executive Director, Residential Capital Markets  
[oli.buckland@cbre.com](mailto:oli.buckland@cbre.com)

© Copyright 2023. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.