



# MARKET REVIEW:

## 2022 IN REAL ESTATE



## REPORT:

How has the UK's real estate market fared in 2022?

Despite prominent economic headwinds, the data tells a more positive story; with a steady performance across key sectors. Meanwhile the number of property enquiries – which offers a powerful insight into future activity – suggests that demand are holding steady at the end of 2022.

Some post-pandemic trends are particularly encouraging. Average rents for office and industrial have increased – a result of a flight towards high-quality (including Grade A) units. That this shift has held up against a difficult backdrop of persistent inflation will be welcomed by investors and developers alike.

So how is each market performing – and where are the opportunities for 2023 and beyond?



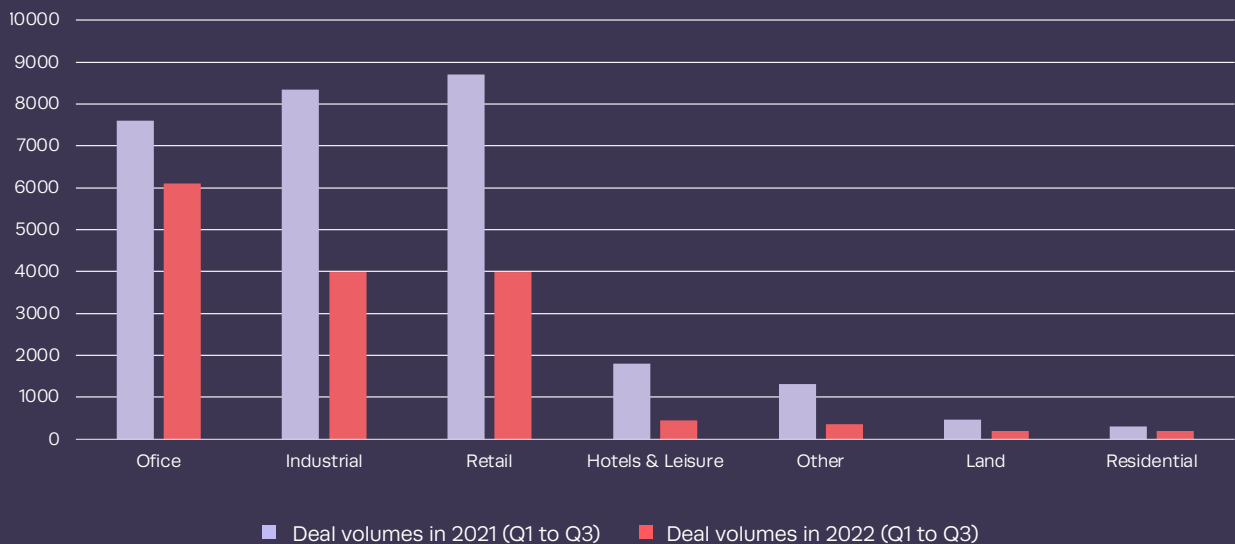
## Top sector by region

| Top deal value category 2022 | Sector     | % of total local deal value |
|------------------------------|------------|-----------------------------|
| GREATER LONDON               | Office     | 85%                         |
| EAST MIDLANDS                | Industrial | 51%                         |
| SCOTLAND                     | Office     | 45%                         |
| NORTH WEST                   | Retail     | 43%                         |
| NORTH EAST                   | Retail     | 41%                         |
| YORKSHIRE                    | Industrial | 39%                         |
| EAST OF ENGLAND              | Industrial | 36%                         |
| WEST MIDLANDS                | Industrial | 35%                         |
| WALES                        | Retail     | 32%                         |
| SOUTH WEST                   | Industrial | 31%                         |
| SOUTH EAST                   | Office     | 29%                         |

## OFFICES: A FLIGHT TO QUALITY

As Britain gets back to business, the office market follows. Of the three major CRE markets – office, industrial and retail/leisure – the office sector has already emerged the strongest performer in 2022, with 6,099 sales totalling £16bn.

### Sectors as a share of deals



### Where retail was the top seller in 2021, office leads in 2022

Following previous years, the Greater London area accounts for the majority of deals (more than 80% in H1 2022). But offices are also the main driver in two other regions: namely the South East and Scotland. The level of occupier office enquiries from January 2019 to November 2022, continues to grow in the South East, London, East of England and West Midlands. The demand has been steady in Yorkshire, West and East Midlands and Scotland but more subdued in the North East, Wales and the South West.

A particularly welcome trend has been the sharp rise in deal values. In the past year, the median office sale has risen from £550k to £1 million. And while the market has been buoyed by a small number of "megadeals" (such as the £809 million sale of Landsec's 21 Moorfields), the data indicates a more substantive trend – with 1 in 5 office deals topping £2 million.





The rise is driven by two factors. First, the ongoing post-pandemic drive for better quality premises which can best support creative collaboration and maximise employee wellbeing. And second, the ongoing drive towards sustainability, as occupiers look to minimise their environmental impact and eliminate unnecessary energy usage.

Take Bristol's EQ – a flagship development from CEG. With more than 200,000 sq ft of Grade A and BREEAM Outstanding space, the building will be fully powered by green energy – including 600 sq m of solar panels – making it the city's first net zero office development. Its innovative offer has been hugely popular with occupiers: including the international engineering consultancy Arup.

## INDUSTRIAL: INNOVATION SHAPES DEMAND

On headline figures alone, the industrial sector follows a similar pattern to offices – with a post-pandemic slowdown in transactions compensated by a jump in deal values. Indeed the trend is even more dramatic than the office market, with the average deal jumping from £1.3 million to £3.2 million

### Lower industrial demand and deals signed in 2022

2021 (Q1-Q3)



**79,472**

Number of enquiries

2022 (Q1-Q3)



**73,370**

Number of enquiries



**8,336**

Number of deals



**3,995**

Number of deals





Across the country, industrial provides the highest share of deals in 5 out of 11 UK regions. While the headline decline may suggest cause for caution, the data gives a more nuanced verdict – with the all-important number of viewings remaining impressively resilient.

While a drop in demand for warehouse space had long been a predicted consequence of the pandemic, a more encouraging story is the number of advanced manufacturers seeking particularly high-quality premises and often showing significant flexibility towards location.

One major success story has been GLP's Magna Park. As one of the Midlands' most impressive industrial developments – encompassing some 11 million sq ft – the space has quickly attracted high-profile occupiers, including Amazon. This year, the park acquired two additional tenants: modular homes developer TopHat (paying £5.1 million per annum for 650,000 sq ft) and archive and records manager Iron Mountain taking on their second space (paying £4 million for 500,000 sq ft).

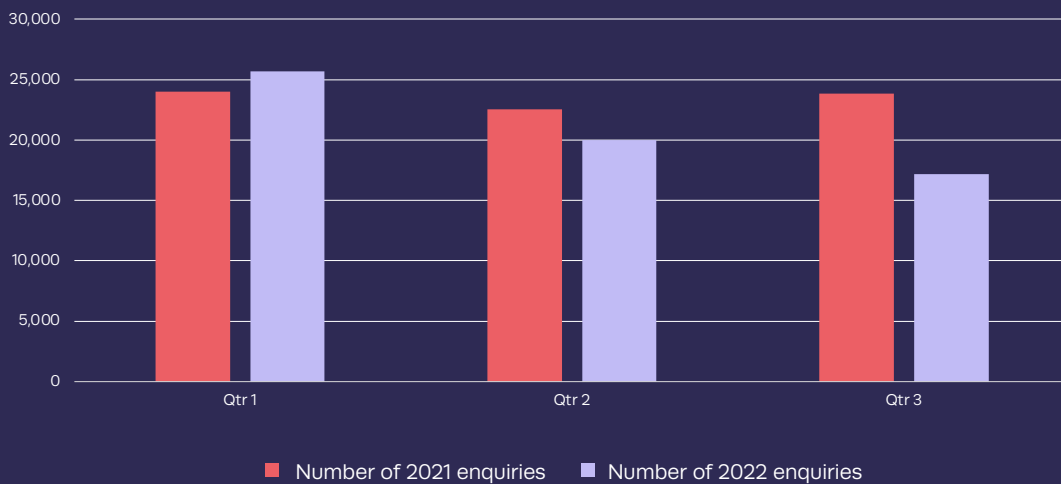
Investor confidence can be seen across the industrial sector, with a number of large deals. Significant acquisitions by REITs in 2022 included Warehouse REIT's £62 million purchase of the Bradwell Abbey Industrial Estate (in Milton Keynes); Urban Logistics' £42 million purchase of the East Midlands Logistics Hub; and Custodian's £11 million purchase of a distribution facility between Glasgow and Edinburgh.

## RETAIL: SIGNS OF RECOVERY

With the pandemic finally in retreat, the UK retail sector faces a new set of pressures – as stubborn inflation, labour shortages and declining consumer spending have led some to renew their concerns about the sector's future.

Despite a strong first quarter, enquiries have dropped throughout 2022 as investors and occupiers weigh up an uncertain future. However, transaction data from both sales and lettings shows an uneven picture: as certain sub-sectors continue to outperform the sector benchmark.

### Retail demand



Retail demand is slowing down





As with previous years, discount retailers remain a driving force – with Primark, Poundstretcher and supermarkets Iceland and WM Morrison all taking on large spaces in 2022. Elsewhere, creative and lifestyle retailers continue to outperform the market.

In September, the “pop up” pioneer Boxpark – known for its boutique malls created from repurposed shipping containers – announced it would open its first non-London site, taking on a 15-year lease for 21,500 sq ft at Cains Brewery Village in Liverpool.

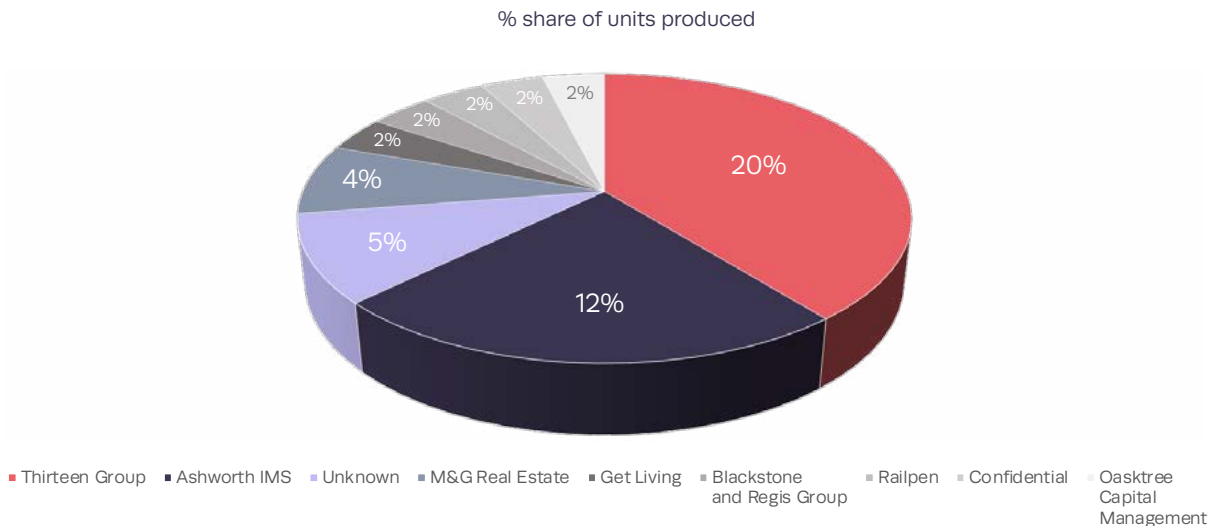
The prime market continues to draw significant investor interest – particularly in London. Excluding deals less than 10,000 sq ft, the average retail investments 70% higher than 2019 – at £18.8 million – and 53% larger – at 105 sq ft.

Headline acquisitions in London include Sinarmas Land’s £195 million acquisition of 32-50 The Strand; Aermont’s £160 million purchase of Bond Street House; and Ardent’s £50 million acquisition of the retail elements of the City’s Royal Exchange.

## BTR: FROM STRENGTH-TO-STRENGTH

Once a small part of the UK rental sector, build-to-rent (BTR) has been on a journey. In the past five years, the number of purpose-built rental properties has more than doubled, with BTR now accounting for 7% of all new build homes in Britain and more than £4bn in annual investment.

### Biggest names in BTR

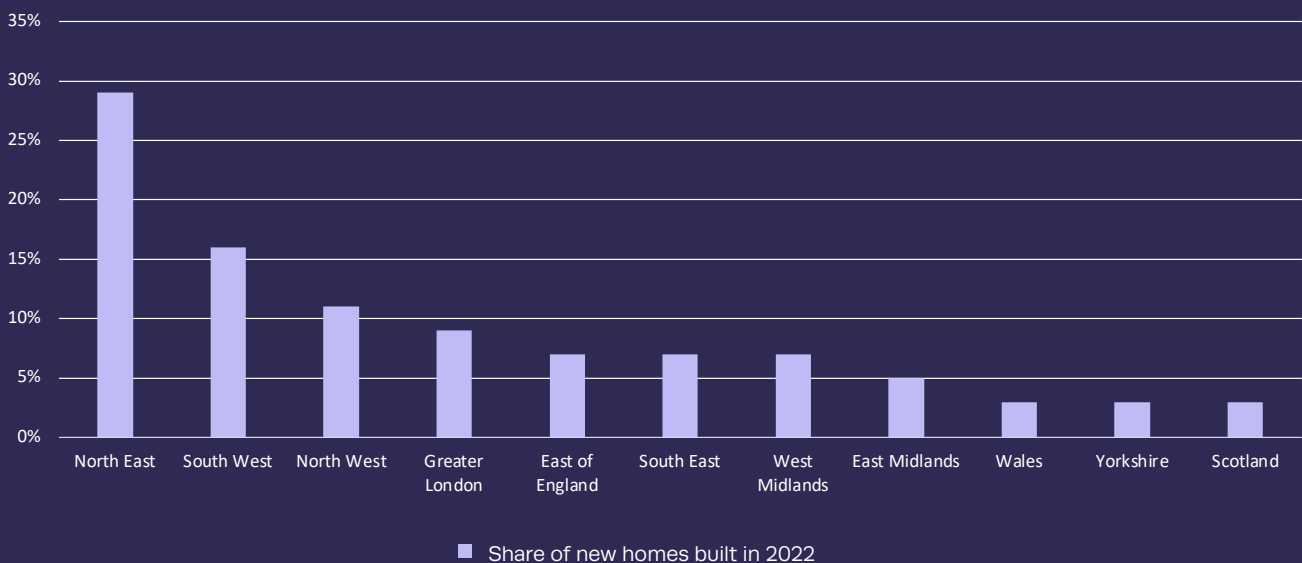


**Thirteen Group produced 20% of all BTR units created in 2022**

After a major rush of investment in recent years, deals have plateaued in 2022. While transactions are down 57% year-on-year, it should be remembered that 2021 was a record period – with this year's deals falling back into line with the longer term trend.

Crucially, BTR is continuing to expand geographically, with the concept quickly spreading beyond London (the original home of Britain's then nascent BTR sector) and into other regions. In 2022, it was the North East that reported the largest number of new BTR premises followed by the South West.

## Retail demand is slowing down



The BTR sector remains strongly associated with university towns, as local authorities and developers look to PBSA (purpose-built student accommodation) not only as a source of high-quality accommodation but also as a way of ensuring that an expanding student population does not cause additional strain on the private rental sector.

Investors will be encouraged that such projects continue to impress tenants. Industry surveys show consistently high-levels of satisfaction with BTR, with many students happy to pay a rental premium in return for speedy WiFi, 24 hour security and on-site gyms. More than 90% of PBSA rooms also come with at least one utility bill included.

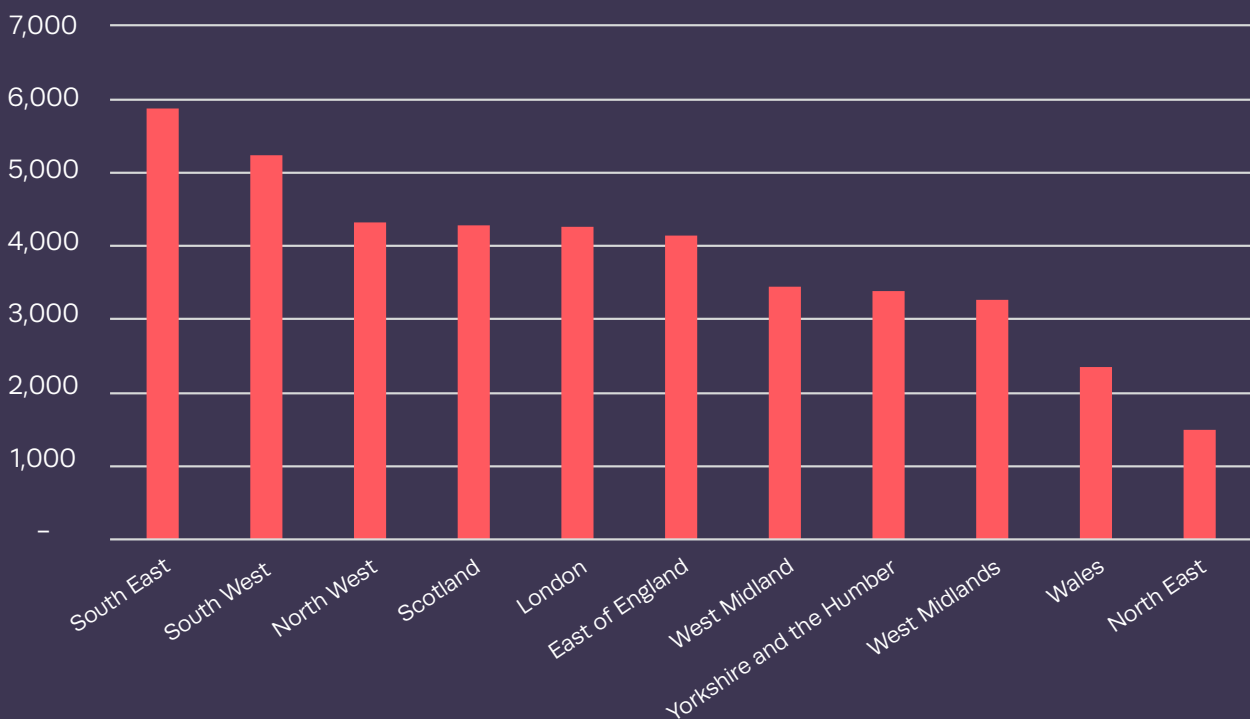
This high-level of satisfaction is reflected in rental yields, including beyond the student market. EG's research into London BTR found that one- and two-bedroom properties commanded a 21% rental premium against the traditional PRS, with some larger homes reaching double the rental average for their borough.



## PLANNING: LOOKING FORWARD

The underlying strength of the CRE market is reflected in a strong planning pipeline, with more than 42,000 applications filed between January and October 2022

### Number of planning applications by region



**Most 2022 applications have been submitted in the south of England**

In terms of the major markets, retail is the strongest represented (with 8,973 of applications), followed by industrial (6,422) and office (3,287). Much of the pipeline is made up of applications classified as "General" (9,645), while the leisure sector also holds significant weight (5,647).

When it comes to permission, 50% of overall applications have received the greenlight – a 25% drop on 2021 levels. But of those applications which haven't received permission, an overwhelming majority – 99% – are awaiting a final decision. Should this backlog ease, approvals could surge in 2023.

On a regional level, the South East remains the star performer – with just under 6,000 applications (around 14% of the total). The overall pipeline, however, is well distributed – with five other regions (including Scotland) – accounting for at least 10% of total applications.

Despite the government entering the fourth year of its "levelling up" agenda, the North East remains a laggard – with fewer than 2,000 applications. While Liz Truss's promise to deliver expedited planning regimes within designated "investment zones" might have been welcomed, its future is unclear with Rishi Sunak in Downing Street.

In any event, the data on declined applications suggests that a lack of investment may be a bigger problem than legislative hurdles. The number of declined projects in the North East remains in direct proportion to its share of applications – while London and the South East have a larger share of refusals compared to their overall pipelines.

Looking at the permission rate across sectors, both offices and leisure score highly – with 57% of the former having either received permission or begun construction, and 55% of the former. Residential remains the biggest drag on planning: with 62% of applications awaiting decision.



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