# CBRE’s mid-year outlook on robust UK property sectors

3 years ago

Amidst a backdrop of elevated inflation and rising interest rates, real estate advisor CBRE has released its mid-year UK Property Outlook, revealing its expectations for the second half of 2022.

Residential Outlook

In May 2022, available housing supply outpaced demand for the first time since early 2019. This reflects more challenging conditions for buyers and points to lower activity for the remainder of the year. In some areas, however, sales will be supported by the ending of the Help to Buy scheme, with prospective homebuyers rushing to submit applications prior to the October deadline.

Any moderation in activity will take time to feed through to pricing and CBRE UK forecasts house price growth of c8% in 2022.

Investment into the residential sector will be strong for the remainder of the year, driven by keen competition from investment capital targeting the sector. Year-to-date deals, combined with the under-offer pipeline, indicates that 2022 will exceed the record high of £4.4bn invested in 2021.

Office Outlook

The UK economic outlook has deteriorated since the start of the year and as a result sentiment in the office market has weakened. This could persuade some occupiers to pause their occupational decision-making, resulting in see a slow-down in take-up. However as is typical, we expect the final quarter of the year to see an improvement in leasing activities as occupiers press to complete deals before year-end.

Concerns over inflation and rising interest rates could cause office investment activity to slow in Q3. With a strong first half, investment volumes for the full year are likely to remain healthy, but below the levels seen in 2021.

Sustainability

CBRE expects to see a tightening of regulation and disclosure requirements, which will drive greater transparency in properties' sustainability credentials.

Businesses will refine their climate transition plans, the disclosure of which will become mandatory under the sustainability disclosure requirements likely in 2023, aligning with the UK's 2050 net-zero objective.

Driven by the increasing pressure from disclosure regulation and consumer demand, data on sustainability performance will become more readily available. This may allow more robust investigations into the relationship between sustainability and financial value.

Leisure and Hotels Outlook

Pent-up consumer demand for most leisure activities remains. However, most leisure businesses are facing dual macro-economic challenges of higher inflation and interest rates.

On the investment side, the weight of capital targeting leisure markets has thus far offset any drag from inflation and interest rates. Should interest rates rise further, the cost of borrowing may start to impact pricing from leveraged investors.

In the hotels sector, good financing conditions for core and high-quality assets are still available, despite the recent movements in interest rates. As international travel returns, investors are optimistic this will translate into renewed investment activity in sector.

London and metropolitan cities such as Edinburgh should continue to see strong performance in H2, supported by international travel and events such as the Edinburgh Festival and Commonwealth Games.

Healthcare Outlook

The healthcare sector continues to lure investors, attracted by strong operators and rent underpinned by trading performance that has proved resilient throughout the pandemic.

With record levels on NHS waiting lists, the private acute care sector is well placed to capitalise through 2022 and beyond. We expect to see several large-scale investment transactions in the second half of the year as well as new development of smaller, specialist acute care facilities.

CBRE also expects to see a surge in retirement rental stock to meet the needs of an aging population that increasingly seeks optionality and flexibility which in turn creates investment opportunities.

Retail Outlook

Following the initial gains seen when Covid-19 restrictions were eased, UK footfall has remained relatively stable in Q2 2022, this is expected to continue in H2 2022. In terms of online, we expect penetration levels will only see moderate growth in the second half of the year, however this could be disrupted as the changing economy impacts consumer preferences.

Rising costs are expected to cause some retailers to review their growth plans. That said, many occupiers have already undertaken portfolio restructuring during the pandemic, and as such we anticipate vacancy rates will remain stable.

Given the trajectory for interest rates, retail yields present an attractive proposition for many investors. Moving forward, investor appetite for the sector should continue to match the levels seen in H1 2022. While repurposing opportunities are still likely to come to market, increased construction costs could delay actioning plans.

Industrial & Logistics Outlook

Logistics occupier demand will remain high still driven by permanent shifts in consumer behaviour and further restructuring of supply chains. Speculative developments will continue to increase although not quickly enough to keep up with surging demand. This will lead to accelerated rental growth, in some regions continuing the double-digit growth seen in 2021.

The investment market will face further pressure from the macroeconomic expectations and rising cost of debt. However, we anticipate that conviction about the logistics sector will remain robust. ESG requirements along with automation and robotics will become increasingly important.

“We anticipate that the Bank of England will continue raising interest rates to combat inflation with the Bank Rate reaching 2.3% by year-end. Although this could put pressure on some parts of the property market, we expect sectors that are underpinned by a proven track record of resilience to inflation, in particular healthcare, leisure, multifamily and logistics will continue to see increased demand from a broad range of investors for the remainder of the year.

Jen Siebrits, Head of UK research, CBRE

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