FMBusinessDaily

Avison Young – What CRE investors, developers and occupiers need to know now

3 years ago

Avison Young's Outlook 2023 identifies key topics shaping commercial real estate in the coming year.

Strategic real estate advisor Avison Young today released its Outlook 2023, covering office, retail, industrial, residential, and leisure sectors. The annual report provides perspective on how global events, trends and indicators impact these sectors across the UK.

Natasha Patel, UK Head of Innovation and Insight at Avison Young, said:
"With the Bank of England forecasting the country's longest recession since records began, the cost-of-living crisis, tightening financial conditions and the aftermath of the COVID-19 pandemic all weigh heavily on the UK as we move into 2023.

Against the backdrop of this uncertain landscape, decision makers need to continue to identify priorities and opportunities within their local markets, in order to deliver real estate strategies that serve their businesses, communities and wider stakeholders.

The trends and indicators we have identified provide a crucial overview of opportunities shaping our industry in the coming year. These include the growing significance of ESG credentials in sustaining asset values and demand; investor appetite owing to income security and strong rental dynamics in the residential sector; a pool of dry powder waiting to be deployed; nearshoring creating demand in the industrial sector; and a growing consumer appetite for experiential retail and leisure."

Avison Young sets the scene for the Outlook by examining the short-term impacts of the cost-of-living crisis and the wider mood across capital markets.

- Cost of Living Crisis – Inflation is expected to ebb gradually in 2023 but remain at levels that are still high by historic standards. Interest rates are expected to peak in Q1, but then level out throughout 2023, and into 2024. While consumer-facing real estate will face a difficult year, it could become an area of opportunity in 2024 and 2025 – a stronger UK economy predicted for 2024 onwards would also bode well for the housing market, as well as distribution warehouses, due to the rise of ecommerce.
- Capital Markets – With many buyers currently on the side lines, afraid of 'catching a falling knife', prices are very likely to soften in 2023. The extent of price correction will vary according to quality and location, with prime assets holding up better than secondary stock. A significant amount of the opportunity fund money that was raised during the pandemic has not yet been deployed, and opportunist capital and well-funded investors with long-term horizons are likely to re-enter the market from Q3 onwards.

On sectors, Avison Young's key take-aways are:

- Offices – The UK's established status as a solid business location, coupled with the ongoing flight to quality, changes in lease structures and sector diversification will help protect against decline in prime rents. Lack of demand for poorer quality office stock will create bifurcation in the market.
- Industrial – Rental values for Big Box Grade A space are holding up well, driven by robust occupier demand, as a lack of available stock continues to be a hurdle for occupiers well into the new year. Nearshoring of operations could spur growth in the medium term as frailties of global supply chains are increasingly coming under review. New build stock will continue to focus heavily on ESG credentials, as companies move towards their own net zero carbon targets. The sector will also face mounting challenges from rising costs of materials, labour and energy.
- Residential – 2023 will commence with interest rates at their highest level since late 2008 which marks a paradigm shift for the housing market. Consequently, house price growth is expected to decline by 10-15% next year. Higher cost of debt and build costs will slow residential investment activity in the first half of the year but income security and prospects for rental growth will underpin long-term demand and drive continued repositioning toward the sector.
- Retail – The cost-of-living crisis will see household incomes squeezed. Retailers will continue to rationalise estates as they seek to move to locations which fit their future growth strategies. 2023 will likely see further occupier bankruptcies, increasing the likelihood of gaps in many retail destinations. There will be an opportunity though for new entrants to the market to access rarely available prime space at discounted prices. We also anticipate an uplift in the number of shoppers returning to physical locations as the online share of retail sales continues to decline with consumers opting for more experiential retailing. UK retail will also be boosted by the rating revaluation.
- Leisure – Hospitality will be hit by labour issues, rising costs and declining consumer spend although the impact may not be as severe as in previous recessions, as consumers are likely to place a higher importance on their social wellbeing. The UK could benefit from a double-pronged upswing in revenues from tourism, from consumers forgoing overseas holidays in favour of cheaper UK staycations, combined with an expected increase in the number of overseas tourists. As an industry that constantly reinvents itself, we expect to see new, innovative formats emerging.

Access the full Outlook 2023 here.