

Savills unveils 2023 cross-sector UK forecasts

3 years ago



In some sectors, for some investors, this could be the buying opportunity of a generation. But the long post-global financial crash cycle is over: investors need to approach this as a new era when income will be the main driver of returns across most major asset classes.

Retail warehouses and poor livestock land are set to see the highest investment returns between 2023-26 of 9.8% and 8.4% respectively, says [Savills](#) in its 2023 cross-sector forecasts.

But while poor livestock land is set to see significant growth in its capital value, retail warehouse performance will be driven by income returns over the next four years, as will the vast majority of UK property sub-sectors (excluding rural assets) according to Savills, as the economy enters a new era, where capital returns slow, and income becomes the main drivers of investment performance.

[Savills projected comparative annualised returns: 2023-2026 inclusive](#)

In the commercial markets, despite rising interest rates and the cost of debt suppressing investment volumes and returns in late 2022 and early 2023, Savills says that continued occupier demand for prime high quality, highly rated sustainable offices and warehouses is set to deliver rental growth despite any recessionary shocks to demand. The international real estate advisor forecasts that commercial prime capital values are likely to reach their nadir in early summer 2023, as the opportunistic buyers massing globally call the cycle, while investors who follow structural trends will become comfortable that UK occupational dynamics have not materially changed.

James Gulliford, Savills joint head of UK investment, comments: "The second half of 2022 saw the most rapid repricing of market yields that we have ever recorded, and this sets us up for a return of activity and

then a period of price stability later in 2023. In some sectors, for some investors, this could be the buying opportunity of a generation. But the long post-global financial crash cycle is over, and investors will have to approach this opportunity as a new era when income will be the main driver of total returns across most major asset classes.”

Savills commercial themes and top picks for 2023:

- A weak consumer environment in 2023 will lead to a softening in occupier demand for logistics from the peaks seen in 2020-21, but long-term near-shoring and shortening supply chains trends will support future demand for both logistics and manufacturing space. A slight short-term increase to the overall warehouse vacancy rate from near record lows in 2022 is probable, although as the economy returns to growth the undersupply of prime space will lead to rates falling and rental growth accelerating again.
- Retail capital values were adjusting before Covid-19, and therefore current high yields need less correction to reflect higher base rates. Q1-Q2 2023 will be tough for UK retail, but vacancy rates are expected to return to the downward trend begun in 2022 in H2 with some rental growth in some sub-sectors. High street shops in suburban and commuter towns are likely to outperform, given trends towards higher footfall, while bulky goods retail warehousing is more exposed given its dependence on the sale of big-ticket items. However, the high income return on offer will mean that this sector delivers some of the best commercial property total returns over the next five years.
- Lower office occupancy levels may be felt in terms of rising subletting, however, given the overwhelming lack of UK offices with high environmental ratings, and a fall in speculative development due to the tightening debt market, prime office rental growth remains deliverable.
- Top commercial investment picks for 2023:

- o Prime and green office development for delivery into 2025/6

- o High street shops in affluent commuter towns & London suburbs to capitalise on agile working related shifts in consumer spending

- o Prime mid-box logistics development for delivery into an undersupplied 2024/5

Image credit: Savills