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An Alternatives View

Insights into the UK's alternative assets

A word from the Senior Partner

Robert Clarke, Senior Partner
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It has been a real pleasure, in my near three decades with the practice, to have helped contribute - alongside a good many others - to its evolution and development over time and witness the associated, and sustainable, growth in our reach and profile.

We are now, truly, a national presence with offices throughout the UK which further allows the opportunity to bring local insight to find the right property solution.

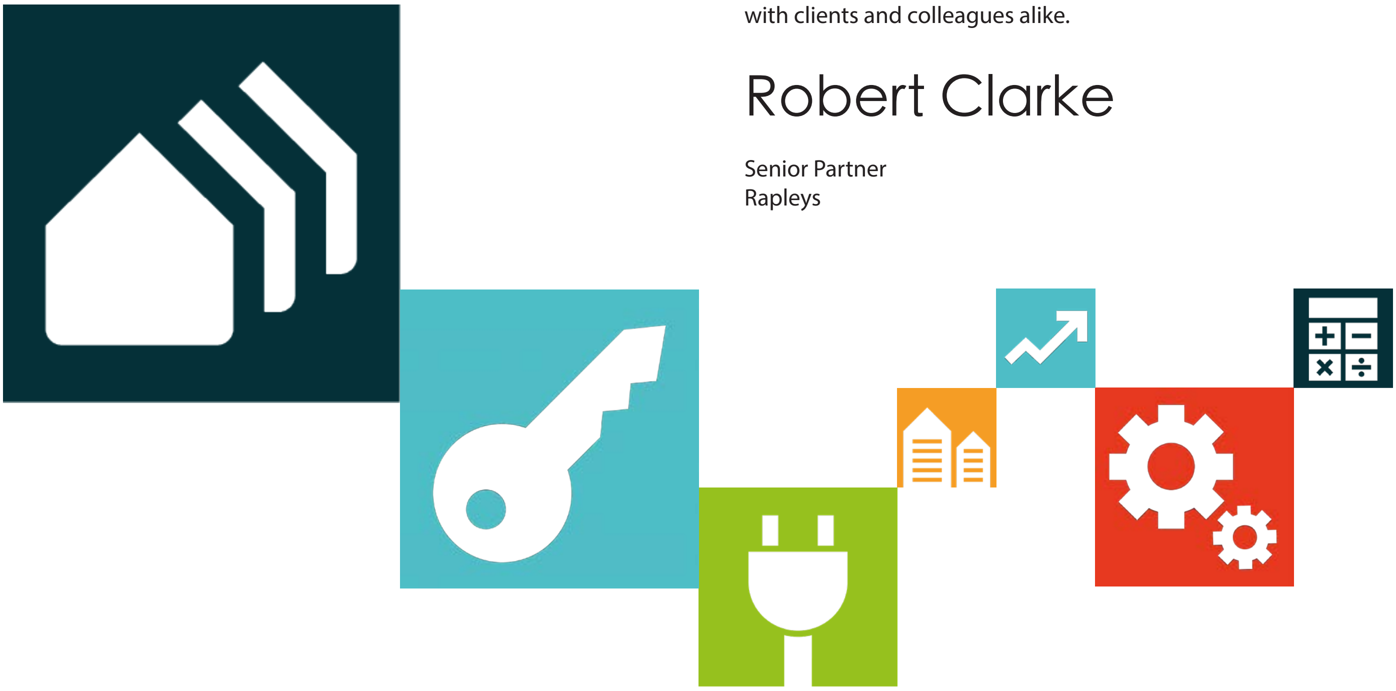
Whilst we remain committed to traditional property sectors (such as, offices, industrial, retail and residential), we have also targeted, as part of our growth, niche/alternative industries which this report seeks to capture, champion and celebrate.

We have been - and continue to be - instructed, in the alternatives sector, across a range of our property services, whether that be agency, building consultancy and/or planning to name just a few. We can certainly offer advice, to the alternatives sector, on a multi-disciplinary basis.

I therefore hope that you find the report to be an informative and authoritative read (based on our experiences to date) and, in this respect, I shall be delighted to hear from you with any views that you wish to share as we look, as a business, to continue our journey in the world of alternative industries. A journey which, personally, I am excited to be further exploring with clients and colleagues alike.

Robert Clarke

Senior Partner
Rapleys



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AFFORDABLE HOUSING
4.5m
affordable homes in England, only 25,000 owned by institutional investors – less than 1%

CAR DEALERSHIP
1
call for sale vs 100 for buy

CHURCHES
40,000
more in the UK than pubs

DRIVE THRUS
2,000
in the UK

BUILD TO RENT
£56bn
UK BTR market value, up 60% since 2019, 50% year on year growth predicted

PETROL STATIONS
5,355
properties in the UK; fuel margins currently at a 20 year high

CARE
750,000
= UK retirement units but only 1.2% private

DATA CENTRES
+5.5%
year on year growth in the UK, no 3 in Europe

DENTISTS
£8bn
- the value of UK dental industry

EDUCATION
£24,500
- the average build cost of secondary schools per head

LABS
1,166
- the number of spin outs in the UK but 1% - the vacancy rate of labs in Golden Triangle

RENEWABLES
1.3m
homes generating solar energy = 4.1% of the 29m homes in the UK

SELF STORAGE
2,200
- sites in the UK with turnover to hit £1bn this year

SPORT
4,997
- the number of sports facilities businesses in the UK

TRANSPORT
1
in every £6 of planned infrastructure capex unspent

VETS
57%
of UK households home 38m pets with 3.2m getting a pet in lockdown

> “We have seen increased interest by investors in alternative and niche assets as they seek value add opportunities and to diversify their portfolios. There is huge growth to be unlocked if you know where to look.”

Rebecca Harper, Head of Investment

> “This is the first time such a diverse array of assets has been brought together to guide property stakeholders on these complex environments with their own bespoke macro and micro issues, pressures and policy on top of real estate requirements.”

Justin Tuckwell, Managing Partner

Introduction

Justin Tuckwell, Managing Partner
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Despite the challenges faced in the current property market, the alternatives industry has proved remarkably resilient in recent years.

As market leaders in a range of alternative sectors from Dentists, Churches and Vets to Foodstores, Petrol Stations and Car Dealerships, and with specialist expertise in Life Sciences, Data Centres, Transport, Education and alternative Residential assets, Rapleys has a unique understanding of the alternatives industry as a whole and the exciting and interesting opportunities it can offer to our clients.

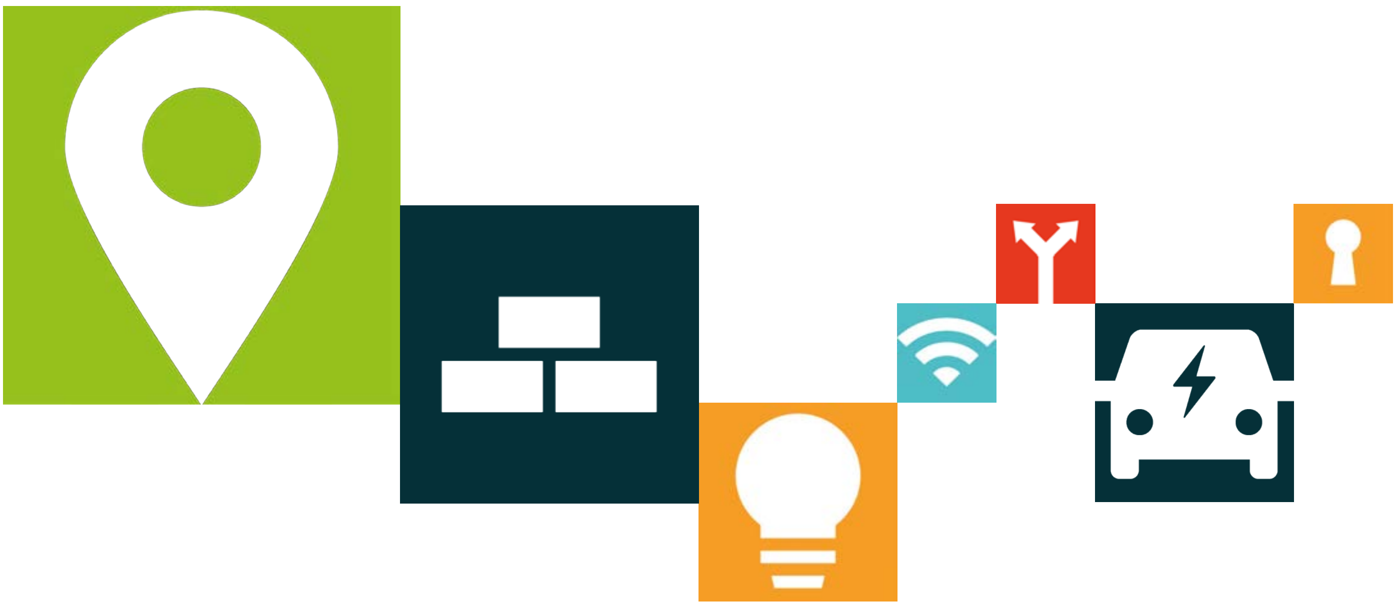
Until now, however, we have never brought our insights into this vibrant property arena together in one place.

I am delighted therefore to rectify this and to welcome you to our inaugural alternatives report. In this, we take a look at some of the key themes driving the market and review the performance fundamentals, opportunities, challenges and long-term outlook for 16 niche alternative industries that we work in actively, every day.

What is clear is that alternatives offer a number of opportunities within the wider property sector that may not be considered by players unfamiliar with them. We hope this report opens up some of them, whilst providing some thought for property stakeholders who may be looking to diversify.

Justin Tuckwell

Managing Partner
Rapleys



Market Influences

The property sector as a whole has had a roller coaster ride over the last few years. There have been expected challenges with Brexit and sustainability compliance but also the unexpected with COVID-19, Russia's invasion of Ukraine and increasing Middle Eastern conflicts. All of this has put pressure on real estate investors, developers and occupiers.

Despite this, alternative industries have risen in popularity with the likes of Build to Rent (BTR) and Care Homes & Retirement property seeing record levels of investment over the last three years. Sectors such as Automotives, Dentists and Vets have performed in spite of external pressures and found opportunities along the way.

This report looks at the alternative industries that Rapleys specialises in – from those growing in popularity and profile with property investors, to more niche opportunities where tomorrow's investors could focus in order to diversify their strategy and portfolio.

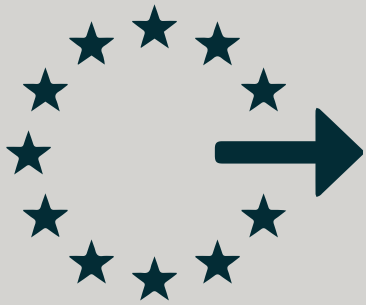
Despite their vast differences in fundamentals and operations, there are some common findings and themes that run throughout, although the way each industry has reacted or performed is inevitably different, such is the variety in the niche sectors within alternatives.

SUSTAINABILITY

A general focus on sustainability by UK Government, together with the onset of Minimum Energy Efficiency Standards (MEES) regulation for commercial property, placed pressure on business owners and landlords alike. In the alternative industries, this was particularly seen in Automotives, Foodstores and older Labs where temperature and light are integral to operations. For some, such as Schools and Sports, the cost of decarbonisation wouldn't be returned, making upgrade decisions more difficult.

In late 2023, the UK quietly saw fewer funds focused on ESG and social impact, perhaps partly as a result of ongoing policy flip flops and less confidence.

BREXIT

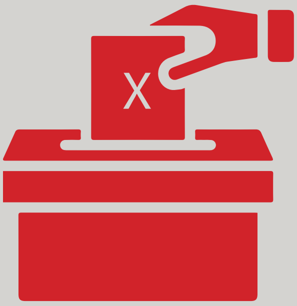


After the two year period following the triggering of Article 50, Britain finally left the EU in 2020 and the supply of materials and labour caused the industry pain across almost every sector.

Affordable Housing in particular saw disruption to delivery and ongoing viability issues restricting all kinds of development.

Other sectors had mixed performance: Churches lost thousands of worshippers, but this brought a supply of unique properties to the market ripe for conversion. Supermarkets saw months of missing produce and higher prices, but convenience stores were winners thanks to local suppliers and home working.

POLITICAL UNCERTAINTIES

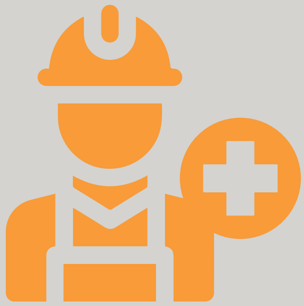


While confidence in the UK's political landscape has been fairly negative since COVID-19, 2023 saw it plunge to new depths with scandals, investigations and the much maligned mini-budget upsetting the economy further.

As a result, UK plc made fewer strategic or long-term decisions, adopting a 'wait and see' approach and placing many sectors in limbo with fewer transactions and lower commitments.

There were positive moves in the alternative sectors of BTR, Care & Retirement, Sports and Vets where investment, development and corporate M&A continued.

HEALTH & SAFETY



From air quality, mould and cladding to Reinforced Autoclaved Aerated Concrete (RAAC), asbestos and structural design, health and safety has been a key theme across all sectors. Mostly a challenge, those sectors that acted quickly were the ones that protected income and optimised performance.

Those most in the spotlight were Affordable Housing, where waiting lists and those in temporary accommodation swelled, while fines were dished out to Registered Providers who failed to upgrade their properties. With some school roofs collapsing, Education and other public sector properties were flagged as risks. The uptake of Electric Vehicles (EVs) placed pressure on Car Dealerships due to the weight and power required versus normal fuel motors.

COVID-19

Four years since the start of COVID-19 and its effects on every sector are clear to see. While disrupting some of the more traditional industries like Retail, Leisure and Offices, the alternatives have found opportunities.

Foodstores – in particular independents and convenience – have soared in popularity, with numbers up some 1,300 post-COVID-19 thanks to home working and an ongoing 'support local' culture following the pandemic, whilst BTR, Retirement Homes and Student Accommodation have all taken advantage of a new type of housing demand.

Fans demanding a physical experience bolstered Sports stadia and Vets were buoyed by a strong surge in pet ownership during lockdown.

INNOVATION, TECH & DATA

The rise in AI seemed to pose a threat to property, but most sectors agreed that it would be a useful companion to – but not a replacement for – people.

Automotives, Dentists, Labs and Vets have seen huge advances in tech over the past few years, placing the UK as market leaders in these fields.

Data has been crucial to customer experience.

BTR is an example of how insight gleaned from smart tech has been fed back into design and operations while supermarkets have benefited from efficiencies also using similar tech.

With more affordable tech coming to market, the signs are good that efficiencies and insights will also transfer to social housing and education.

Affordable Housing

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With an estimated 10m people in substandard and 95,000 in temporary accommodation, plus 1.5m on waiting lists, the need to bring forward the supply of social housing has never been greater.

£1.9bn of much needed funding was returned to the Treasury by the Department for Levelling Up, Housing & Communities (DLUHC) reportedly due to a lack of projects. With a dire need to scale up affordable housing supply and improve the quality of public sector housing stock, there needs to be more innovation and creativity in the sector. We need to find new ways to bring forward housing, working with private sector developers and financial institutions to unlock under-used assets in the public sector in a creative way.

There are many challenges facing the sector around the quality of existing provision including fire safety, gas safety, decarbonisation funding initiatives and damp and mould, the latter gathering much attention with fines being handed out by the regulator, something that is expected to escalate. The need for providers to scale up asset management programmes in response to these pressures has taken financial resources away from development programmes which, together with higher costs of borrowing and increased construction costs, is having a direct impact on programme scales. To maintain the level of affordable housing, the levels of the social housing grant will need to increase and there needs to be encouragement for the private sector to invest.

The increase in the number of For Profits (FPs) in the sector is bringing much needed diversity and private funding into the sector. 2023 saw the largest increase in the registration of new For Profit providers as the private market recognises the attractiveness of the sector despite the challenges of achieving registration. Any initiative that brings private funding and commercial acumen to the sector is to be welcomed.

However, of the 4.5m affordable homes in England, there are still only 25,000 owned by institutional investors and despite rapid growth forecasts for the next 3-5 years, the UK has a long way to go to meet the housing shortfall, compounded by buy to let landlords exiting.

There needs to be investment: streamlining the For Profit registration process with tax incentives, Local Authorities to allocate additional land for Affordable Housing schemes and a ramping up of grants. Government needs to introduce significant policy change, backed by financial support, to drive up housing supply to meet the need of future generations.

TOP 5 CHALLENGES

LAND VALUES & SUPPLY - land values have not yet started to come down which means viability remains stretched across all asset classes, social housing in particular

COSTS - rising costs for utilities, building, labour and the supply chain delays themselves, have all hampered both refurbishment and new build social housing

SUSTAINABILITY - swathes of affordable housing are in the worst category of EPCs which aside from not meeting environmental criteria, means that they are more expensive to heat, damp proof and power

HEALTH & SAFETY - damp and mould is a major concern, brought to the media's attention by the tragic death of Awaab Ishak, adding to ongoing cladding concerns

UNDERSTANDING - an ongoing lack of understanding for both central and local government continues to threaten ability to develop and fund properly. In 2023 £1.9bn was returned to the Treasury because the DLUHC couldn't determine what to spend it on

TOP 5 OPPORTUNITIES

FOR PROFIT PROVIDERS - the commercial benefits are to deliver properties required under s106 agreements and deploy capital in a stable/ secure market

TECHNOLOGY - becoming more affordable to landlords and tenants alike which allows Registered Providers to extract data and improve the tenant experience

M&A - increasing pattern of smaller regional providers merging with larger groups for cost effectiveness and long-term financial stability (but could impact diversity, local knowledge and smaller developments)

RECOGNITION - investors are notably recognising Affordable Housing as an asset class with a secure income stream. Those who leverage the tenant experience learned from the Private Rented Sector (PRS) will do best

ANTI-CYCLICAL SECTOR - the sector provides a good alternative to the more volatile private housing market and will be seen as increasingly attractive to financial institutions

STATS

New affordable housing completions

2018-19: 57,226
2019-20: 58,964
2020-21: 52,072
2021-22: 59,356

4.5m affordable homes in England, only c.25,000 are owned by institutional investors – less than 1%

81% of affordable homes are delivered by Private Registered Providers, 13% by Local Authorities

Investors own c.26,400 affordable homes, with 85% delivered by just four providers

70 registered For Profit Housing Providers in April 2023, more than one third set up in the last 3 years

Total homes short: 1.5m in England/95,000 per annum

OUTLOOK

Investors with social impact weighting and property expertise are expected to plough into the sector over the next few years

The British Property Federation (BPF) projects 120% growth in investor-owned affordable housing in three years as investors turn from PRS and BTR to Affordable Housing

The trend for new For Profit Providers will continue

M&A activity will continue, meaning there will be fewer providers overall

Delivery is likely to be down for 2022 and 2023. However, in 2024 growth is predicted to pick up as interest rates come down and inflation gets under greater control

Automotive: Car Dealerships

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The Automotive market has generally performed well since 2020, buoyed by the lack of supply for new vehicles and strong demand for second hand cars. In recent months, values for assets and sites have plateaued somewhat as the used car market recovers to sustainable margin levels. Rental values have remained strong but rises are likely to be more restrained following a cool down in the industrial market – the market which the Automotive sector tends to be most aligned with.

The outlook is strong for car dealerships from a valuation and demand perspective, although there are definitely challenges. The buildings are largely made of steel and glass, two of the most expensive build materials, with the highest inflationary increases over the last three years, according to the Building Cost Information Service (BCIS). In addition, sustainability is a tricky issue for dealerships as they require a much higher level of both heating and cooling, and light/power. The likely changes to MEES targets in the medium term are unlikely to be helpful for car dealerships already navigating how to be greener whilst operationally, meeting these requirements will represent a big cost that will not see a payback realistically, especially if further MEES changes mean that transactionally there's a reprieve. Of course savvy operators will be making sustainability improvements when they are refurbishing their dealerships. Some dealers may find loopholes in the EPC system meaning further thought is required into checks and balances.

In many towns and cities, dealer groups and manufacturers are considering opportunities to multi-franchise (essentially a department store model). The reason for this is because of the need to showcase a quantum of cars and, with land scarce and pricey, the only way may be up and we have seen a number of multi storey dealership facilities in recent years. This brings some challenges, for example with the wider uptake of EVs which are significantly heavier (for example, 100 ICE 3 series replaced by electric cars weigh the equivalent of six double deckers more than typical fuel models). Upper floors and decks may need to be stress tested if built originally for a typical ICE car load.

A lot of work also needs to take place underground for car dealerships, especially if stacking up more floors. This is not just because of the foundations but also with the move to EVs, new substations may be required.

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The shift to an agency model for bigger dealers will help solve the issue of storage as car stocks are held centrally. This model has been beneficial to dealer groups because of centralised infrastructure: marketing, finance and procurement. It remains to be seen if this works where local demand is particular to the preferences of its specific catchment.

Another trend to watch out for is the move to mobility as a service (MaaS) - the on-demand use of cars with integrated OS via an app. Users hire a car local to them from a 'car club' or via an app that downloads all the user's favourite settings to the vehicle. This allows people to effectively use the car as if it's their own but without any ownership or leasing responsibilities. Historically used for public transport journeys, it has evolved into a rising trend in automotives with some commentators questioning if it will be the end of private car ownership. While we don't believe this to be the case, it will undoubtedly have an impact on the requirement for second cars.

The biggest trend in this industry, however, is undoubtedly the volume of M&A and new international entrants to the UK. Lookers have recently been taken over by Alpha Auto Group, a new entrant to the UK, and Lithia Motors are continuing to build upon their purchase of Jardine Motors with their recent acquisition of Pendragon to create the second largest group in the UK.

Why are these big acquisitions happening? Because the UK is the place to be for cars: we are still seen as part of Europe and the new Chinese firms like BYD, NIO and Chery will come to the UK / Germany in the first instance and then the rest of Europe. Electric car brands like Fisker are also scaling up over here: UK consumers are still buying cars – both old and new and EVs are on the uptake.

We predict that the core conurbations of London, Birmingham, Manchester and Edinburgh will lead the way for existing dealers and new entrants alike.

TOP 5 CHALLENGES

LAND/ASSET SCARCITY - especially in London and other affluent city areas

SUSTAINABILITY - EPCs, specialised heating & cooling systems

REINSURANCE - with build costs having risen, car showrooms use the most expensive materials

EVs - weigh more than fuel motors so multi-level showrooms may need reinforcement, coupled with greater substation power requirements

M&A ACTIVITY - also an opportunity but those in the middle may get squeezed between flourishing independents and big agency brands

TOP 5 OPPORTUNITIES

M&A ACTIVITY - some dealerships could reinforce independents or seek investment

RELEASE OF CAPITAL - with so many acquiring brands, surplus sites can be sold for decent returns

FOCUS ON SECOND-HAND CARS - lack of new stock means values for second-hand cars are holding up

AGENCY MODEL WITH CENTRAL STORAGE SHIFT - means stock held elsewhere and dealerships benefit from central infrastructure

COOLING OFF IN INDUSTRIAL MARKET - presents opportunities for growth and site or asset acquisitions for car dealers

PERFORMANCE

IN THE LAST 12 MONTHS...

Capital values

Rental values

Land values

Planning approvals

IN THE LAST 5 YEARS...

Capital values

Rental values

+25%
Land values

Automotive: Petrol Stations

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Petrol station operators are split three ways with independents making up 5,355 properties and oil companies and supermarkets remarkably at 1,505 each according to the 2023 Petrol Association Review.

With the recent various fuel crises, attention has turned to the uptake in EVs, with the 50,000 milestone inpublic charging points only reached in Q4 2023 - at a petrol station no less.

However, the ability to 'put in' EV charging at existing forecourts isn't a simple or cost efficient one, despite the demand for sites. As it stands, operators are still making good money on fuel and, in fact, make more money from the sale of confectionery than on the EV point itself. It may seem more worthwhile not to install an EV point but to leave the space for parking or as an air pump unit. Those sites that have a lot of car parking spaces may find it more appealing, but most sites are dense and converting space into an EV charging point, where it may take up to 18 years for payback, could seem a high barrier to overcome.

With a renewed recent focus on hydrogen, which is much less reliant on new infrastructure, there will be even less appetite to spend money on EV conversions. There are currently only two types of hydrogen car available in the UK but with manufacturers testing many models, government support for hydrogen, and its sustainable attributes, we may well see that change in the near future.

On new sites it's easy enough to plan in EVs and optimise the overall mix. Operators like Applegreen are building bigger schemes on new sites driven by convenience and other services. Here, petrol isn't the profit driver anyway, it's there to attract other spend. Then there are other development driven opportunities with a potential mix of use, some of which include residential. However, this in itself raises viability questions: agents estimate that housing close to a petrol station can see up to 10% lower values.

In terms of ownership, in the near future we are likely to see an increase in the number of transactions because of interest rate rises. Like other assets, those owners who borrowed at cheap rates will be reassessing their holdings and what is performing and critical to their business operations.

One recent portfolio included six sites but the market forced the portfolio to split up. Despite increasing difficulty accessing debt, operators will look at a package but it needs to be a portfolio that can be incorporated into an existing network. In fact, it is the smaller players who are facing a real choice: to revel in their success where owning local forecourts pays off, or sell to larger players who want to expand and can afford the debt more easily. More of these types of owners are based in rural areas where EVs are less commonly used and fuel performs well. It's a tricky conundrum but we believe some of these independent or small regional operators will cash out.

That said, as the Automotive market leader, we are still seeing the phone ringing for acquisitions, with 100 calls to buy for every one for sales: the signs remain positive.

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18 years
payback time for EV charger conversion

20 yr high
Fuel margins are currently at a 20 year high

TOP 5 CHALLENGES

AVAILABILITY OF FUNDS - restricting smaller players from expansion despite their appetite

MARKET COMPETITION - this is pushing fuel margins down and there is potential for further competition which will exacerbate this

RATE INCREASES - purchasers who have borrowed at low levels could have issues with repayments due to increase in rates

COST EFFECTIVENESS OF EV - the payback can be up to 18 years before profit for putting in an EV charging space

BIG PLAYERS - brands such as Asda buying up forecourts for development

TOP 5 OPPORTUNITIES

EVS - cost effective to put in on new sites and lots of demand for EV connected assets

FOOD TO GO OFFERS - convenience forecourts continue to perform and food-led opportunities are fuelling development

ECONOMIES OF SCALE - for acquisitions. For every single sales call we get 100 wanting to buy and most are wanting more than one site

INDEPENDENTS - good sales opportunity to raise capital but could mean more independents leaving the market unless they have more than one asset

REDEVELOPMENT - the bigger players are buying forecourts to add income streams via roadside retail & leisure, petrol is not the driver

PERFORMANCE

IN THE LAST 12 MONTHS...

Capital values

Rental values

Land values

IN THE LAST 5 YEARS...

Capital values

Rental values

Land values

OUTLOOK

Capital values

Rental values

Land values

Keep an eye on:
EV charging, hydrogen and transactional activity

Build to Rent (BTR)

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The UK has seen the Build to Rent (BTR) sector mature quickly, buoyed by the sophistication of developer operators, a real focus on customer experience and the constriction of the mortgage market.

Competition in London and the regional cities is fierce with schemes vying to stand out. The value of a cool and innovative brand is key to generating demand for 'aspirational living'.

In BTR, the attitude towards renting has finally shifted. And this is one of the strongest factors in the rise of Single Family Housing (SFH) where a record SFH investment volume of £460m was seen in the first half of 2023 out of a total of £1.9bn in BTR overall. Multifamily was some 20% behind the same period in 2022.

While Multifamily is most associated with city centre apartment schemes, SFH is more of a suburban concept, and most active in the Home Counties and wider South-East where there is less density and where local family-oriented infrastructure already exists.

The security of an institutional landlord and the convenience of services and amenities has made the prospect of renting much more palatable for families and all generations of renters. Integrated communities were winners during and post Covid with landlords such as Quintain seeing its tenants stay long-term and shifting between accommodation types to suit their stage of life.

In both Multifamily and SFH, speed is of the essence – operators need to build and lease their units/homes as soon as possible. Design, and good off plan strategies are crucial to this process. The best performers have been those that have captured what their renters want and flexed their offer accordingly. BTR developments of all kinds today feature co-working spaces as well as wellness rooms and a range of social zones, rather than sticking with the original 'gym and bar' options.

Investors are still placing their money in BTR and that's why SFH has done well to date, even with relatively few operational investors. It's not a slam dunk. We have seen companies such as John Lewis acquire sites to both develop and operate but there are reports highlighting losses of £57m on their first site located in Ealing.

STATS

UK market valued at £56bn, up 60% since 2019

Q2 2023 record investment in UK BTR at over £1bn

Total BTR operational units in the UK: over 85,000

Pipeline: 160,000

Projected: long term trend is 50% growth year on year

Those in Multifamily that have succeeded have created aspirational brands and well-run living spaces. After all, if the basics don't work, no amount of extras will keep tenants long-term. That's why the role of the operator is crucial, and we are seeing a range of new operator-only entrants to the market.

The winners will be those that are flexible throughout the BTR lifecycle.

TOP 5 CHALLENGES

LAND VALUES - land values are yet to come down making viability more difficult for schemes of all sizes

COMPETITION - such is the number of developer/operators entering the UK BTR market that it's becoming increasingly difficult to distinguish one scheme from another

BUILD COSTS - as with all types of development, build costs are hampering the viability of schemes and BTR is particularly vulnerable because value is only realised once units are let

SUSTAINABILITY - operational sustainability is a challenge with such large rental communities

SUPPLY & SPEED - BTR is always a race to lease units as quickly as possible but with more delays to planning processes expected and a shortage of labour and materials post Brexit slowing development down, BTR will feel even more pressure

TOP 5 OPPORTUNITIES

DATA & TECH - with tech advancing at pace, we have better data about what tenants want and how they interact with properties than ever before, which savvy operators are building into designs

INTEGRATED COMMUNITIES - BTR has opened the door to more integrated communities and co-living, something that has seen success in Continental Europe

SINGLE FAMILY HOUSING - the emergence of SFH in the UK promises to create a new type of long-term renter, driven mostly by families

POSITIVE MINDSET - BTR has positively contributed to the rental market being seen as a choice with higher end BTR known as 'aspirational living'

HEALTH & WELLNESS - post-COVID, BTR has seen a special focus on health and wellbeing bringing positive change to amenities and services and integrated within design

PERFORMANCE

IN THE LAST 12 MONTHS...

Capital values

Rental values

Land values

IN THE LAST 3 YEARS...

Capital values

Rental values

Land values

OUTLOOK

Capital values

Rental values

Land values

Keep an eye on:
Single Family Housing - lots of talk and some schemes under development but it is yet to take the market by storm as some have predicted

Care Homes & Retirement

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The Care Homes & Retirement sector is evolving with more choices in ownership structure and a huge investment in higher end residences that feature both amenities and serviced operations.

Given the wide variation in types of care and retirement facility across the C2 and C3 use classes: nursing homes, care homes, residential homes, residential with extra care, later living/BTR, there is a great choice for potential residents at all market levels.

However, sites can be difficult to come by as developers and operators are competing with a wide range of end users, while a lack of understanding of the sector by some local authorities could be seen as an obstacle.

An injection of both capital and new entrants has fuelled a real variation in the players in this sector: some believe the value is in the operation, while others are there to achieve planning and sell on; some want turnkey solutions and others want to be involved in every part of the design. The higher end of the market has, to date, followed the north-south divide with the Home Counties, home of the affluent downsizer, an early adopter of luxury later living. However, we are seeing interest in other locations and the signs are there that operational and serviced 'later living' could soon see success elsewhere with affluent towns to the South of Manchester top of the list. We expect clients to test the market before committing, perhaps forming part of a wider development mix.

While planning for some retirement brands has proven more complicated than expected, we are seeing more and more acceptance. Who doesn't want a quiet community with extra facilities on their doorstep as long as it's well-designed? The grey pound has proven to be helpful to local high streets and if schemes have extra care included, there is evidence of less pressure on local public services, while any travel is usually off peak.

Thanks to the COVID-19 spotlight on care homes, there has been a rising demand for high quality institutional operations. The family, mostly the eldest daughter or daughter-in-law, has taken on decision making. Brands have thus pivoted sales and marketing strategies accordingly as they have expanded. This has proved to be a successful approach.

STATS

Aimed at 65+

Average age: 80

85+ is the fastest growing age group in the UK

65+ increased from 9.2m in 2011 to over 11m in 2021

18.6% of UK are aged 65+

65+ age group to be 1 in 4 by 2040, more than under 16s

750,000 specialist retirement units but only 1.2% are private

£2bn invested in UK retirement housing up from £1.4bn in 2021

TOP 5 CHALLENGES

LAND VALUES - land values are yet to come down making viability more difficult for schemes of all sizes

DEVELOPMENT LED MARKET - the developer / operator relationship adds a layer of complexity to deals which requires management

OPERATORS - there is only a handful of proven operating JV partners in the UK

PLANNING - a lack of understanding at Local Authority level of the differences between care, residential and retirement hampers planning decisions

LOCAL POLITICS - competing priorities with regards to the delivery of new housing across Local Planning Authority areas are minefields that can be difficult to navigate

Underpinned by strong fundamentals – demographics and supply vs demand – we are sure that retirement focussed developments will continue to expand across the UK in various guises: whether city centre, town, suburbs or rural, for purchase or rental, independent, assisted living or extra care.

Developers and operators who can curate genuine long-term intergenerational communities will succeed most: i.e. get them early and adapt for all later life stages. The average age of people in these developments is 80 despite marketing to 'active 65s'. Branding, pricing, choice and flexibility will be key.

TOP 5 OPPORTUNITIES

RANGE OF CATEGORIES - the ability to vary the design and service offer to reflect local market conditions in a way that traditional market housing cannot

COMMUNITIES - integrated communities are emerging where people live for longer

GREY POUND - older persons often have disposable income and visit high streets and towns at off-peak times, meaning much needed footfall and spend for local business

HOUSING MARKET - later living frees up family housing which filters through the housing market, creating a better balance

MATURITY - as the sector matures, developers/operators are becoming more savvy and adapting design to be more flexible, investors are increasingly interested in the asset class

PERFORMANCE

IN THE LAST 12 MONTHS...

Capital values

Rental values

Planning consents

IN THE LAST 3 YEARS...

Capital values

Rental values

Planning consents

OUTLOOK

Capital values

Rental values

Planning consents

Keep an eye on:
the regions, Later Living has been mostly delivered in the South East in affluent towns but other regions are catching on; and watch out for policy - will we see better categorisation of older persons housing and use classes?

Churches

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Church pews once filled with parishioners are increasingly left empty, causing a growing surplus of religious buildings in the UK. With attendance declining and services shifting online - accelerated during and post-COVID, over 40,000 churches now outnumber pubs despite a significantly smaller congregation. This has led to a record number of decommissioned churches hitting the property market.

According to the 2021 census, the number of Christians in the UK dropped 13% from 59.3% to 46.2% between 2011-2021. At the same time, the proportion of Muslims increased from 4.9% to 6.5%. Most notably, those with no religion rose dramatically by 12% from 25.2% to 37.2% over the decade. The significant decline in Christians and church attendance presents a unique opportunity amid this surplus.

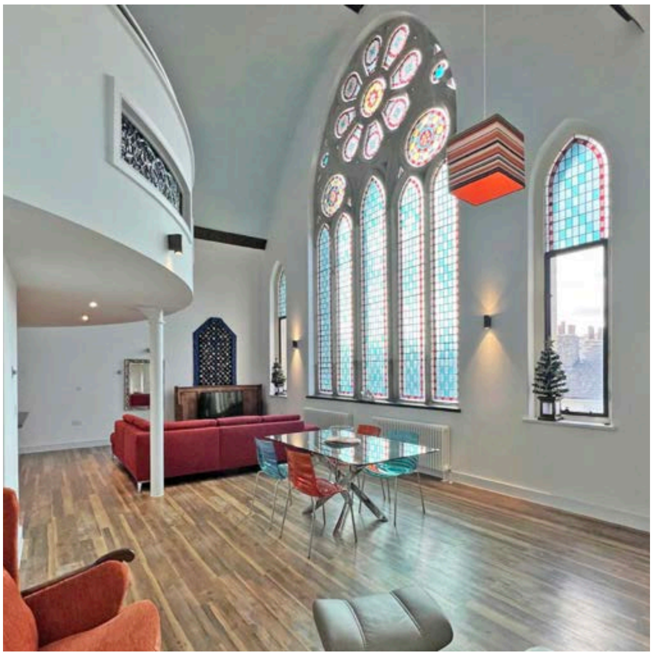
As more churches stand empty, they can be repurposed into much-needed housing. Converting unused churches into apartments or condominiums would provide homes in already established communities. Yet developers have been slow to purchase these unique buildings. The challenges posed by graveyards, heritage rules, difficult access, and lack of parking cause most to pass up church projects.

Instead, individuals have been snapping up church listings with dreams of ambitious conversions into grand residential homes. Transforming a sacred building into a home has its obstacles. Change of use permissions, structural repairs, and lack of outdoor space require creative problem-solving. But for those willing to overcome these hurdles, a church conversion allows you to live in a one-of-a-kind home with vaulted ceilings, stunning stained glass windows, and ready-made archways and architectural details.

Lenders may require a higher deposit for a church conversion mortgage, 25-30% of the property's value. Despite the challenges, pricing for churches has remained relatively reasonable compared to other historic buildings. In our last few church sales, Rapleys has found buyers commit to at least 10% over asking price. However, in urban areas, there is strong competition from other faith groups which can push the price up.

The growing surplus of empty churches provides an exciting opportunity for the right buyer willing to resurrect these beautiful buildings with a residential afterlife. As more congregations go virtual, former churches will continue coming to market across the country.

This is good news for individuals and investors who have faith in overcoming the challenges presented, either in creating a designer home for themselves, or for creating an income stream through a buy-to-let property. Either way, the transformation into unique living space will often add architectural elegance to a community while retrofitting and sustainability works needing to be included as part of the residential conversion are also positive future-proofing enhancements.



THE TIMES - FEATURE WITH RAPLEYS

TOP 5 CHALLENGES

CONVERSION PLANNING - change of use/loss of community resource has to be demonstrated via proving supply of other community facilities nearby but local groups are increasingly resistant

GRAVEYARDS - not every church has one but they can cause issues!

CONSERVATION - a fair number of churches are listed or in a conservation area, which makes conversion trickier but not impossible

THE BUILDING FABRIC - water ingress from roof/dampness or stability/underpinning can be a common problem but again solvable

LACK OF GROUNDS/GARDENS/CAR PARKING - another reason why developers don't tend to favour church redevelopments

TOP 5 OPPORTUNITIES

VALUE - most churches are reasonably priced and value can be added

DEVELOPERS - developers avoid buying church sites so individuals are more likely to snap up a property ripe for conversion

CURB APPEAL - church buildings mostly have beautiful architecture and original features such as ornate woodwork, windows and doors that can be made into design highlights

SUSTAINABILITY - it's easier to put in place simple sustainability features as part of the conversion and refurbishment works

LOCATION - most church buildings have a village community and picturesque surrounding

STATS

At 40,000, there are more churches in the UK than pubs

3.24m people regularly go to church

22.2m people (40% of UK population) go to church on special occasions (for example, Christmas, weddings)

None of the UK's churches receive guaranteed funding - all are charities

RURAL VS URBAN

While rural churches often get sold for residential use, those looking to convert urban churches have strong competition from other faith groups

Data Centres

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Data Centres are facilities designed to house and operate services and infrastructure that host data and applications for businesses and other organisations.

As data and digital have become core to operations across the globe, greater importance has been placed on centres that host this functionality. Data Centres used to be most often found in roadside or warehouse property. However, they now require larger floorplates close to cities or business centres so that they are accessible by the organisations they support.

The UK is a global leader in Data Centres and the sector is growing 5.5% a year powered by cloud-based software and the Internet of Things. London is a hub for telecoms, renowned for cyber security, and fintech.

East India Docks is one of the core locations powering the City. Amongst the space leased to corporate occupiers, there are multilevel Data Centres, five to six storeys high, which are run like data centre hotels by companies such as Telehouse and Global Switch. Supporting the data needs of a variety of organisations, they not only need to be close to the people they serve, but also to be close to two sources of power, in addition to generators on site, should one power source fail.

With the advance of AI and other tech, more reliance will be placed on Data Centres to serve greater demand. But challenges to growth are varied and the solutions not simple.

Despite a need to be close to businesses, city centres are increasingly difficult to navigate for Data Centres which require vast power themselves. They have specific temperature control needs, health & safety, access, and security requirements. Also, they are designed from the inside out, need structural resilience due to equipment weight loads and cannot simply be 'built up' like other viability conscious schemes. Proximity to noise sensitive sources such as residential developments also present locational challenges.

As with other sectors, sustainability legislation poses complications. Policy related to the environment and emissions was largely written for residential development and it's almost impossible to make it work for Data Centres, thus the preference will always be biased against. As with most ESG policy, the intention is right but there is little flexibility for different but crucial operational activities.

Understanding of Data Centres in general is low with local authorities seeing them as inefficient costly boxes that pose health & safety risks and few of the general public wanting them – like telecoms masts – in their back yard or anywhere near it.

Yet there are enormous opportunities and positives for Data Centres. They can serve huge numbers of businesses, especially as the size of chips reduces and investment in technological advances increases. They can also act as a noise reducer in mixed use developments, protecting homes (for example) from industrial or commercial noise and vice versa.

East India Docks with its concentration of Data Centres

TOP 5 CHALLENGES

PLANNING - the complexities of Data Centre requirements make planning more difficult

ENERGY - heating/cooling and electricity requirements are expensive and require increasing supply

STRUCTURAL - weight bearing loads can cause structural challenges

LONDON - 4/5 of the market is reliant on London

SLOW SPEEDS - the UK lags behind other global markets in connectivity

SUSTAINABILITY - existing policy is written based on residential development, making it difficult for Data Centres by their very nature to comply

TOP 5 OPPORTUNITIES

COLOCATION - Data Centres are increasingly part of the commercial mix

LONDON - the leader in cyber security, cloud services Gigabit rollout - the UK Government is committed to investing in 5G and Gigabit rollout

HYBRID WORKING - with this set to continue for 50% of the population, companies have increasing reliance on cloud and online apps

TECH INVESTMENT - with cyber security threats rising and reliance on the Internet Of Things and data, companies want their Data Centres close by meaning this market is set to grow above long-term trends

AI - AI adoption will increase demand for Data centres

Most importantly, Data Centres are huge catalysts of inward investment and associated employment and should be judged on this potential – as the fifth utility – and not as an awkward inert box.

In the future, we'll see smaller pop-up style modular Data Centres serving smaller retail and business space, in addition to home and hybrid workers. But it's the big sources that need to be secure and to do this, we need better understanding and more specific planning policy that facilitate and, ideally, fast track data centres as a critical tool for the UK's connectivity going forwards.

STATS

5.5% year on year growth

£12bn revenue in UK Data Centres

The UK is No. 3 globally

London represents 80% of UK market

Dentists

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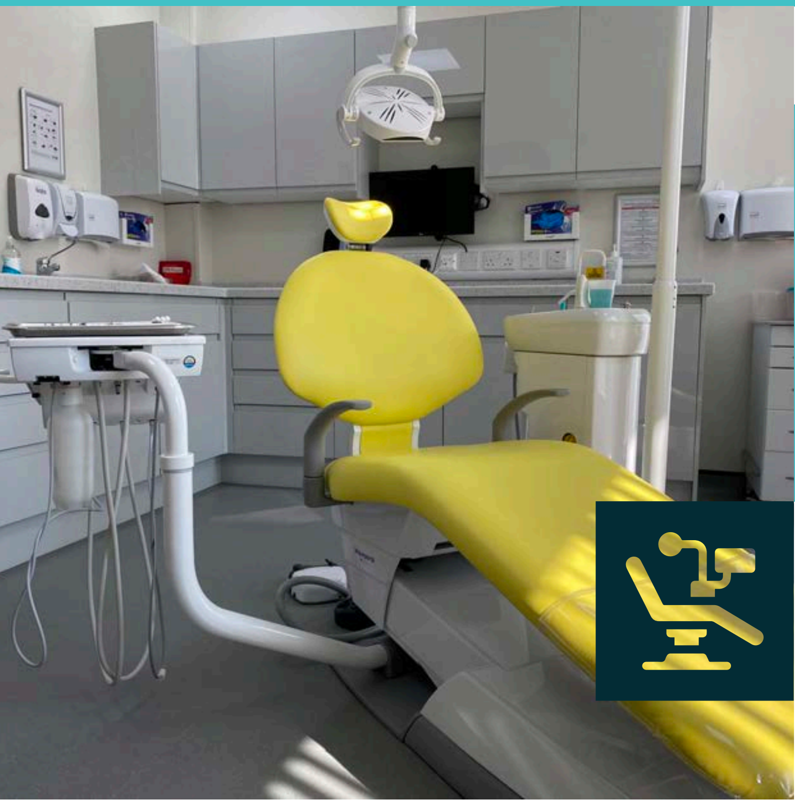

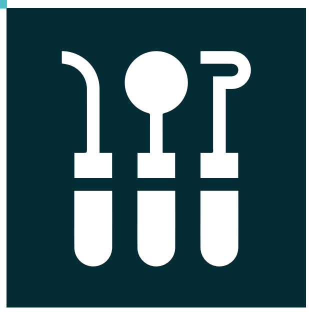

The UK dental industry presents an appealing and strategically prudent investment prospect, with particular upside potential in the rapidly expanding cosmetic dentistry segment. While the total number of dental practices increased moderately over the past decade, reaching 6,240 at the end of 2022, a closer analysis of underlying trends points to steady ongoing expansion and patient growth.

Recent fluctuations in net practice numbers partly reflect isolated events. The COVID-19 pandemic necessitated widespread temporary practice closures and constraints on non-urgent procedures. Additionally, BUPA's 2017 acquisition of Oasis Dental Care, which operated over 200 practices nationwide, impacted totals with some consolidations. However, looking beyond these one-off factors reveals an industry fundamentally driven by strong underlying demand dynamics.

The talent pipeline continues to widen, strengthening the workforce foundation supporting growth. The number of licensed dental care professionals (DCPs) jumped by over 2,000 in 2022 alone, hitting 71,769 registered practitioners nationwide. This deepening pool of skilled dentists, hygienists, technicians and assistants reduces hiring and training costs for emerging practices. Rising prevalence of dental diseases also signals growth ahead. Poor diets, unhealthy lifestyles and urbanisation are increasing rates of common dental disorders, like tooth decay and gum disease, across the UK. As more patients develop these issues, demand for general dentistry services to provide corrective treatment expands correspondingly. Once patients complete initial restorative work, interest frequently develops in improving smile aesthetics through cosmetic procedures. However, while patient needs rise, NHS dental care funding stagnates. With thousands unable to access affordable general dentistry services, immense unmet demand exists – presenting a major opportunity for private general and cosmetic practices.

Cosmetic dentistry, in particular, displays robust growth prospects. As popular treatments like teeth whitening and clear aligners become more affordable and available, demand climbs steeply. Recent surveys reveal cosmetic dental work ranks highly among desired aesthetic treatments nationwide, with 43% citing improved self-confidence as their motivation. However, dental tourism poses some competition, as patients capitalise on more economical overseas options.

Despite this, over a third still view their teeth as their top appearance concern, reflecting steady domestic demand.

Adding to the industry's attractiveness is the lack of dominant national players in the cosmetic segment. With minimal large-scale incumbents, ample space exists for new market entrants to capture significant share and nurture a brand. Dental operators themselves recognise the favourable conditions, proactively seeking long-term leases to convert vacant retail or office units into practices. Transforming available commercial spaces into dental surgeries also offers notable capital expenditure advantages. Compared to many other business uses, dental practices require relatively minimalist fit-outs. Key requirements are lighting, flooring, basic furnishings like chairs and counters, and installation of equipment like dental chairs, x-ray machines, and sterilisation tools. This controlled and streamlined fit-out scope translates into substantially lower upfront capital costs for investors seeking to convert retail or office units into dental practices.

On average, fit-out costs for a new dental practice are significantly lower than retail spaces. For a typical sized unit, this could mean major CapEx savings by opting for a dental practice use rather than retail or other more intensive uses. The relatively contained costs to retrofit vacant spaces gives dental practices high financial viability and contributes to faster payback on investment compared to other uses with more intensive build-out and equipment needs.

With only around 30% of dentists being corporately owned, but a huge amount of interest shown by Venture Capitalists, we expect to see significant M&A activity over the next 12 months and beyond as VC-owned corporates in the industry seek to expand their market share significantly.

In summary, supportive demographic expansion, strong underlying patient demand, and limited competition make the UK dental industry – especially high-growth cosmetic dentistry – a strategically compelling and financially attractive investment prospect. Converting available retail and office units offers an economically prudent entry pathway into this industry with immense upside potential.

TOP 5 CHALLENGES

NHS FUNDING - funding into UK dentistry remains low meaning there is a large supply/demand imbalance

NHS DENTISTS - dentists continue to leave the public sector, tempted by more lucrative private work

OVERSEAS COST - like other cosmetic procedures, dental work is affordable overseas and Brits are taking the opportunity to have a simultaneous holiday

GLOBAL SUPPLY CHAINS - the impact of Brexit and COVID-19 affected supply chains and dental practices are still facing higher costs for essential supplies to date

AFFORDABILITY - the ongoing affordability crisis means that many people who cannot access free dental care are avoiding going to the dentist completely resulting in DIY dentistry and poor dental health

TOP 5 OPPORTUNITIES

COSMETIC DENTISTRY - the practice of 'invisalign' and other more affordable cosmetic practices has seen demand soaring

FLEXIBLE USE - flexible class E in planning has smoothed the way for easy repurposing of empty commercial space for dentistry

RETAIL UNITS - bargains are to be had with lower rents and longer incentive periods for dental operators who want to be on the high street

FEW NATIONAL OPERATORS - with few multinational operators and investors there's a real opportunity for new entrants to the market

CAPEX - the capital expenditure to convert an empty retail unit or office to a dental practice is much lower than for other uses

STATS

Average dentist space: 2,000 sq ft

43% of adults in England in 2023 saw an NHS dentist in the past 24 months vs 52% pre-pandemic

9 out of 10 dentists are not accepting NHS patients

12,000 dental practices in the UK

Cosmetic dentistry at the 100 largest firms in the country reached almost £1bn last year

The UK's dental industry is valued at £8bn

Watch out for: further growth in cosmetic procedures and orthodontics, M&A activity as VC-backed corporates seek to acquire

Education

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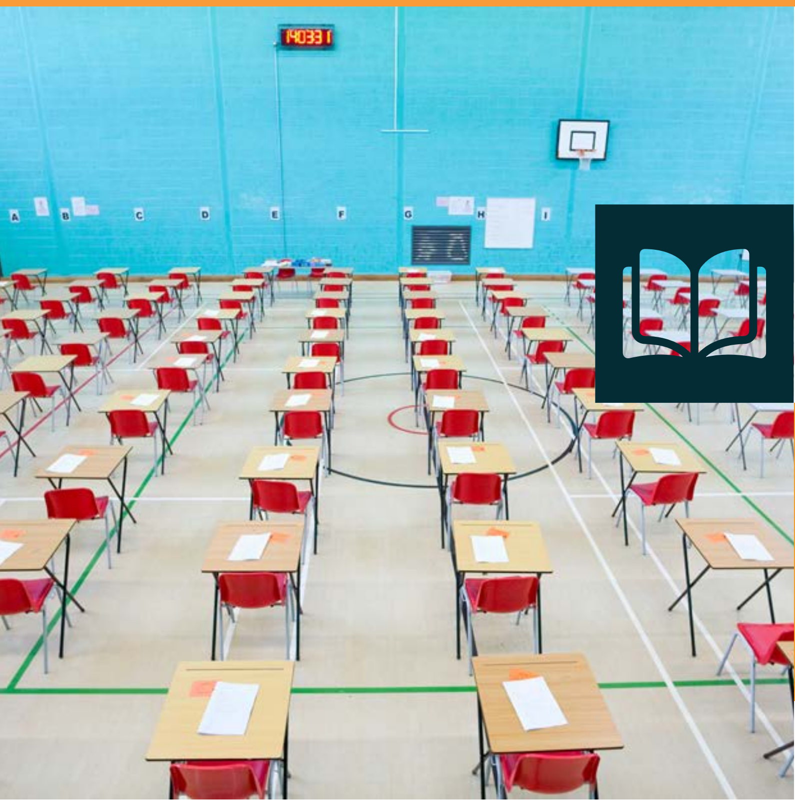

The UK's decentralised education system has distinct structures across England, Scotland, Wales and Northern Ireland, operating under devolved governments. Compulsory education spans ages 5 to 16, with state-funded and independent institutions coexisting. State schools, including community, academies, and grammar schools, operate alongside fee-paying independent schools, commonly known as public schools. Concerns about social mobility and equal access intensify the perennial debate on state versus private education and quality learning.

In certain regions, demand for top-rated primary schools and grammar school catchment areas has created property hotspots, triggering double-digit house price growth and bidding wars in areas like Tunbridge Wells, Kent. Parents pay a premium to reside within these boundaries, amplifying inequality and pricing out lower-income families. Between 2022 and 2023, property prices increased by 0.9% for houses and 2.6% for flats located near popular schools over 12 months but agents say that realistically, houses within the catchment area of outstanding schools and grammar schools can see their prices inflated by 10-20%. The ongoing debate about the structure of independent schools and what charitable status and tax efficiencies they will continue to operate under may exacerbate the grammar school and property pricing scenario.

Health and safety concerns in schools, including asbestos, poor ventilation, and temperature extremes, have drawn huge media attention, particularly in the last 12 months. While the Government pledges funding for repairs and upgrades, critics argue progress is slow, heightening worries.

RAAC is driving refurbishments and surveys to address issues like asbestos. As of October 2023, 214 UK schools were confirmed with RAAC but the reality is that this is likely to be a much higher number after more surveys and investigations. In our own instructions as a specialist adviser, we have found that 15-20% of school buildings need further investigation and, after full surveys, 5-10% of all buildings were found to contain RAAC meaning the actual figure of schools affected could be closer to 1,600.

COVID-19 left an indelible mark on education – including Further and Higher. Prolonged closures, disrupted learning, safety challenges, and a recruitment/retention crisis strained the system. Combined with long-term impacts on learning and wellbeing, these issues paint a complex picture of the UK's educational future.

The student accommodation market also shifted. Operators now prioritise health/wellbeing and market security and mental health services primarily focused on the parents who, post COVID-19, have taken huge levels of interest in their child's 'digs' – the likes of which have never previously been seen.

The return of international students boosted demand for modern purpose-built student accommodation (PBSA), outpacing regular rentals. In 2022, PBSA demand reached unprecedented levels, with UK beds projected to increase from 712,000 in 2022 to 827,000 by 2026. Despite online options, students desire an in-person education post pandemic. PBSA investment constituted 13% of all commercial real estate investment in 2022.

Universities grapple with balancing preservation and modernisation across their property portfolios but also recognise the need to collaborate more with industry. This has led to interdisciplinary research partnerships - particularly in life sciences where big firms base themselves near the top universities.

The demand for heritage and 'red brick' universities has never been stronger with these 'prestige' universities seeing record levels of applications versus a general plateau. Historic buildings require specialised planning and build programmes, while newer institutions have more flexibility. Then there are the relatively new focus areas of sustainability and wellbeing. These are rising on the list of priorities for students and their parents alike and therefore need to be factored into any property decision short or long-term.

TOP 5 CHALLENGES

GOVERNMENT POLICY - flip-flopping on VAT, fees, charity status and tax for private schools will cause impact

BUILDING & ENERGY COSTS - inflation on build costs has stabilised somewhat but settled at a 40.2% rise between July 2020 and 2023 making operations and improvements expensive

RAAC - much reported issues with 'crumbling concrete' could be affecting as many as 10% of schools in the UK

FUNDING CUTS - government funding cuts each year affect schools and push teachers into private education

POPULATION INCREASE - as the UK population increases (3.7m in the last 10 years), competition for school places continues to rise

TOP 5 OPPORTUNITIES

TECHNOLOGICAL - tech advances and online learning is increasing the capacity of teaching

THE RISE OF ACADEMIES - academies are empowered to make quicker academic and growth decisions - and have government support

SUMMER BOOST - with school places always competitive, the property market is seeing the traditional slow summer more buoyant thanks to the January school catchment deadlines

RAAC - will power better investment, refurbishments and surveys

REDESIGN - all schools are rethinking design needs post COVID-19 which will mean better educational property

Guided by property experts, campus development programmes in 2024 aim to transform outdated spaces into more mixed-use 'placemaking' schemes and dynamic community hubs, aligned with 21st century learning as needed as paradigms continue to evolve post-pandemic.

STATS

32,000 state schools in the UK

2,600 independent schools

163 grammar schools

10.3m children in full or part time education

Over 630,000 FTE teachers

The average build cost per pupil for a secondary school is £24,500

£11.4bn of improvement works needed in schools pre-RAAC according to the DfE

Watch out for:
Decision time by the Government prior to a General Election later in 2024 where the Schools Bill should be clarified together with commitments to public vs independent schools

Foodstores

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Foodstores have not been immune to the challenges facing the wider retail sector but there have been a number of success stories in 2023.

The rise in convenience shopping is one of these. Buoyed by home and hybrid working practices, independent convenience stores have risen by 1,374 since 2020. The Co-op sold off all of its petrol forecourts, which were actually convenience stores, and Asda bought them and are taking these forward. This has allowed the Co-op to pay off debt and focus on its local offers.

Another success story are the stores that have embedded flexibility into their strategies and adapted to changing consumer requirements. Examples of this include local catchment demands and "fresh" demand that independents or companies such as the Co-op are able to cater to.

In the same way, a distinct difference in performance is noted between the foodstores that are owned by retail specialists, and those that are not. Brands like M&S, with their 'knickers and snickers' shift, and the Co-op with their ability to serve local tastes with regional stock differentiation, have paid off, while Asda has suffered from its centralised strategy and operations as a result from its non-food focussed ownership.

Retailers such as Aldi and Lidl, who are clear on their strategy and have insight into locations and data, have remained confident and are continuing to expand.

The sector also has its own bespoke challenges. Political and economic uncertainty, plus the rise in the Living Wage and general costs have meant that decisions on Capex and store expansions have largely been put on hold. With a typical convenience store fit-out costing £600-800k each, and payback required within 5 years for success, there needs to be minimal risk associated with each and every store decision.

Sustainability measures have placed pressure on foodstores. Unlike other retailers, they have to place more value on temperature and specialist lighting; while issues within the supply chain have added unnecessary and unplanned cost, often without certainty of some stock for as little as two to three months ahead. The

OUTLOOK

Capital values

Rental values

(thanks to Class E)

Planning permissions

Keep an eye on: supermarkets publishing requirements that are often smoke and mirrors as many are secretly shedding space

TOP 5 CHALLENGES

POLITICAL INSTABILITY - creating uncertainty and lack of confidence by the retailers and investors who won't make any strategic moves until more clarity on a General Election and government make up

INTEREST RATES - creating a lack of consumer confidence and restricting spend

BUILDING COSTS - the rise in build costs is hitting Capex meaning only really necessary projects will go ahead

ULEZ AND DELIVERIES - food stores close to ULEZ zones may be hampered by customers not wanting to drive and lack of delivery operators

PREDICTABILITY - operators are examining their strategies, performance and location, making it difficult to read the market for those not in the know

Ultra Low Emission Zone (ULEZ) is another threat hanging over the retail market, especially in urban areas where it has impacted store deliveries, while fuel costs have also put pressure on.

Some foodstores are selling off assets in order to focus on core success locations, others are putting a hold on expansions. While Tesco and Farm Foods may still acquire, a tidying up of most estates is the priority. However, all brands are keen to be recognised as 'still in the market' so as not to lose opportunities in specific locations.

Next time you receive a list of expansion locations, a pinch of salt is required. But if the wind changes, there could be a lot to follow quickly after this intense and ongoing period of internal evaluation.

TOP 5 OPPORTUNITIES

RETAIL OWNERSHIPS - foodstores owned by retail specialists can use their experience and will take market share from centralised models

INDEPENDENTS - local independents that can source their own local suppliers or have a bakery will outperform

RETAIL SERVICES - can continue taking cheaper high street leases and benefit from footfall

LANDLORD FLEXIBILITY - landlords have the opportunity to repurpose surplus space if retail tenants need to downsize

DISCOUNT/GROWTH BRANDS - brands likes Lidl who are trialling new store formats are powering opportunities for sites and development

PERFORMANCE

IN THE LAST 12 MONTHS...

Capital values

Rental values

(but slower)

Planning permissions

IN THE LAST 3 YEARS...

Capital values

Rental values

Planning permissions

WINNERS

Discount clothing and discount food

Fitness centres and gyms

Non food leisure (salons and hairdressers)

Dark stores/kitchens

Labs

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The rise of the UK's Life Sciences industry has been well-documented and widely cited as one of the few success stories in real estate amidst the global challenges of COVID-19, Brexit and geopolitical and macroeconomic uncertainties.

The UK found itself in the global Life Sciences spotlight thanks to pioneering the first COVID-19 vaccine. In reality, its evolution had started beforehand with world-class universities drawing in global occupiers in this industry such as AstraZeneca and Microsoft looking for the best graduate talent. COVID-19 was, however, an accelerator for the £bns of inward investment.

While investment initially searched for experienced Lab development partners, there were only a handful with the likes of BioMed Reality, Oxford Properties, RLAM, Kadans and Lateral emerging as the top choice for finance. However, as the sector evolves further and edges closer to being more mature, new entrants are being seen together with the larger scale developers and REITS with huge track records across the sectors pivoting into the space.

On the occupier side, demand is greatly outweighing supply. In the core Life Sciences locations within the Golden Triangle of London, Oxford and Cambridge, the vacancy rate is just 1% and this could be seen as even lower for the smaller Life Sciences firms. With over 1,000 active spinouts that will need to scale up space quickly when they take their funded patents to market, there are very few ready and available lab spaces.

Larger development sites themselves are hard to come by and it is London that has seen the most notably sizeable schemes emerge in Whitechapel, Canary Wharf, Kings Cross and Euston, with the latter featuring an innovative tower, the first of its kind for the sector.

Despite huge opportunities, the industry is not without challenges, particularly for existing buildings that need upgrading or repurposing into Life Sciences space.

Despite a large proportion of lab space not being 'wet', some still perceive labs to involve dangerous experiments being undertaken by scientists, and thus the concept of labs as a core tenant is challenging.

Labs do require specialist heating, lighting and ventilation which are expensive to run and pose issues for sustainability compliance which is more structured around residential. This is more challenging for existing space – new space can design in green infrastructure.

Like others, the sector has seen challenges, such as the cost and supply of materials and labour for development. For Life Sciences, it has also been affected by visas for skilled workers; while general uncertainty may have led to a tail off of investment towards the end of 2023.

Overall, the opportunities in Life Sciences vastly outweigh the challenges, but to leverage these most effectively, more incentives, and more action on the promises made by government relating to planning guidance is needed. This should be coupled with an accelerated roll out of the much talked-about 'Investment Zones' outside of the Golden Triangle (we only have 3 out of the 12 currently) and fast-tracking of infrastructure, including the East-West Rail, which has once again been backed by the Chancellor.

GOLDEN TRIANGLE – also known as the ARC, is the global-leading life sciences cluster of London, Oxford, Cambridge

TOP 5 CHALLENGES

SUPPLY & DEMAND - the supply of labs in the Golden Triangle is hugely constricted with almost zero ready space and, with demand high, rents are rising

MATERIALS & LABOUR - the supply of materials and labour for construction, plus the supply of skilled scientists post-Brexit

UNDERSTANDING - an archaic view of labs prevails in some locations challenging their place in mixed use development

INFRASTRUCTURE - the East-West Rail project has been delayed with countless political changes and debate over the right routes

SUSTAINABILITY – labs, particularly in existing buildings, face their own challenges of sustainability thanks to specific requirements

TOP 5 OPPORTUNITIES

DEMAND – SciTech businesses continue to grow led by University spin outs who demand space quickly

INVESTMENT – as the sector evolves, more investors will enter Life Sciences

GLOBAL PROFILE – the UK is seen as a science superpower

GOVERNMENT SUPPORT – Life Sciences is one area where government support is increasing with allocated finance boosts for dedicated Investment Zones, skills and various other funds set aside for the sector

TECH AND INNOVATION – the fast-paced innovation and advance of tech and AI means there is plenty of room for further growth and a strong long-term prospect for UK Life Sciences

STATS

£650m – government package announced in 2023 to help turn the UK into a science 'Super Power'

1,166 – the number of active spin outs in the UK at various stages

UK is home to 2 of the top 5 world universities for Life Sciences

Almost 1/3 of all European Life Sciences start ups are in the UK

CleanTech and Genomics are the dominant spinout sectors in the UK

1% - the vacancy rate in the Golden Triangle

OUTLOOK

High demand and lack of sites and stock may power regional Life Sciences development and new emerging clusters

Investors are becoming more comfortable with the asset class and may take more long-term decisions outside of the Golden Triangle

As the sector matures, more players are gaining experience and track record, which means better insight and more informed decisions

British Land and Savills have projected a £4bn boost to the economy each year from Life Sciences if the rate of growth matches that of the US

Renewables

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Renewable energy is energy derived from natural sources, such as sunlight and wind, that are replenished at a higher rate than they are consumed. Renewable energy sources are crucial to developing a sustainable built environment, to becoming energy self-sufficient and for ultimately reversing the effects of climate change.

Real estate has one of the highest carbon footprints of any sector. According to the UN, it produces around 40% of the world's annual greenhouse gas emissions and, on top of that, it consumes nearly 40% of the world's energy.

The UK Government has committed, through the Climate Change Act, to reduce greenhouse gas emissions by at least 100% of 1990 levels (net zero) by 2050. The renewable sector has a vital role to play in hitting this target. The renewable sector is fast-growing with 43% of the UK electricity mix coming from renewables in 2020. However, there is a lot of innovation still to come, particularly in the real estate sector.

The benefits of solar panels have been apparent for some time, particularly in the residential sector where there have been various grants and subsidies available to homeowners installing photovoltaic panels on their rooftops. To date, it is estimated that there are 1.3m homes generating solar energy, which represents around 4.1% of the 29m homes in the UK. It has been suggested that if every roof space in the UK had solar panels linked to battery storage, we could potentially have enough energy to provide over 50% of the UK"s energy needs.

Yet battery storage is one of the key sticking points for solar energy in the residential sector with both types of mass-produced system being costly and sizeable to store. Battery pack costs (excluding installation) range from £3,000 to £7,000 for the average home (3 bed semi) with a further 25-50% cost required for installation. Thus, the majority of those who have solar panels installed will still be reliant on the National Grid to supplement their power supply.

Battery storage plants are being considered, particularly by bigger developers and Housing Associations, in addition to national infrastructure solutions. As with many of these types of structure, gaining planning permission is complex, in part because brownfield sites are generally prioritised for residential development and a lack of understanding and community support can cause challenges. In addition, in order to hold any substantial amount of power, the structures are large and require significant supporting infrastructure.

For these reasons, in many cases, long duration energy storage is proving not to be viable or feasible. The Government has confirmed it will back large-scale long duration storage and recently awarded some £30m in grants to boost renewable energy storage. Further research and development is needed to allow the potential for long duration energy storage to be fully harnessed.

Heritage buildings, new developments and refurbishments all require different advice when it comes to solar panels and other renewable energy solutions. Whilst advances have been made in the look and installation of renewable technology for existing buildings, there are still planning and project management considerations that need expert advice to ensure the best investment, use of renewables, and ongoing sustainability solutions.

Developers and businesses within the UK built environment have been turning to solar farms/solar PV solutions as a strategy to meet their operational energy requirements, in particular for industrial and distribution uses, and roadside locations across the UK's vast expanse of motorways. We will see much more of this imminently as businesses look to power the EV network linked to transport highways and to further monetise commercial developments across the country.

Whilst these types of development are not without their own challenges, they are often achievable with the right expert to advise on the right sites and the potential issues from the beginning.

There is also increasing acknowledgement of the role that windfarms can play in meeting the UK's energy needs with support from Central Government and the Devolved Administrations. However, achieving planning consent for the development of these schemes is notoriously difficult thanks to health and safety concerns, infrastructure complexities and the reticence of local authorities, the Ministry of Defence, aviation associations and the local community.

For those new to renewables, it is best to focus on the tried-and-tested before turning to new or emerging technologies. We need current technology to work properly to support a diverse mix of renewables in the UK. For that, Central Government needs to facilitate a coordinated approach to infrastructure delivery because without a planned roll out, we cannot unlock projects and the power the UK requires in a truly sustainable manner.

One thing is certain, as with so many of the other alternative sectors highlighted in this report, the planning system is often responsible for many delays. If we want to power the UK to net zero, greater focus is required to overcome the challenges in the renewables sector, and this includes more funding and resource at a local level, some huge thinking around milestones and the education of consumers and communities. The much-delayed but recently released National Planning Policy Framework (NPPF) would have been a good occasion to outline thinking on this but as with other areas, it was largely missing in action.

The delivery of new infrastructure in the UK generally costs significantly more than it does in other countries across Europe. In addition, the politically continuous nature of many of these schemes means it is easier for the Government to shy away from delivering infrastructure which will benefit the country in the longer term. Therefore, a streamlined approach to delivering new energy infrastructure should be adopted so that the benefits of renewable energy can be harnessed as soon as practicable. This carries particular pertinence at this present time given the increases in gas and oil prices we have seen in recent years.

As with so many parts of the built environment, a strategy in one area is not successful without a strategy in another. We cannot have a net zero strategy without renewables, and we cannot have renewables without a better infrastructure strategy, and the latter won't work unless electricity is available to power such infrastructure. It's a true full circle and one that requires a holistic approach.

TOP 5 CHALLENGES

Battery storage cost and size

Substation/grid/supporting infrastructure

Lack of understanding from key stakeholders

Further changes to planning policy are required to ensure a smoother roll-out of renewable technology

Community objection

TOP 5 OPPORTUNITIES

Opportunity to become self-sufficient as a country

Decreasing costs as the sector evolves

Government support and grants

Data and knowledge improving thanks to innovative technology

Design has improved so technologies can be integrated in more retrofits and heritage buildings

Roadside: Drive Thrus & Self-Storage

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Consumers are increasingly looking for quick and easy access to their favourite restaurants and coffee shops, and as a result, Drive Thrus have become one of the recent success stories in commercial property from a consumer, investor and operator perspective.

Food & beverage businesses are finding it increasingly attractive operating in this way and, subsequently, demand for roadside sites has increased rapidly, especially considering the competition for such sites from EV charging operators and the Petrol Foodstores market. Operators are having to consider a variety of ways to procure such sites be it freehold purchases, leasehold Design & Build, ground leases or partnering with investors where covenant strength can be key. In some cases operators are seeking to partner with franchisees to secure facilities and some of these franchisees have become strong entities in their own right. EG Group and 23.5 Degrees are some of the largest operators in the market, representing brands such as Starbucks, Greggs, Burger King and Subway.

As a result of this strong market, rents have risen considerably with some Drive Thru restaurants commanding rents of over £50 psf in prime areas with yields for even average covenants being sub 6% in a market where interest rates are less than 1% below.

The inflationary crisis over the last 12 months hasn't helped with affordability for operators with build costs rising considerably. Even a perfect storm of rising rents and operating costs doesn't appear to have reduced demand with new requirements opening up all the time.

Indeed, Drive Thrus aren't just in demand by the usual fast food global brands such as McDonalds and Starbucks. In the last few years higher end operators have taken tentative steps into this market including chains such as Gails, Five Guys and Leon, who all have a number of requirements out.

Demand for this type of investment overpowers supply. This means land, rental and capital values will continue to rise amid fierce competition while landlords with Drive Thru assets will benefit from specialist advice to transform them into the real 'golden nugget' in their portfolio.

DRIVE THRUS OPPORTUNITIES

Rising rents

Innovative site solutions present asset management or enhancement opportunities

New entrants to the market will power a new type of consumer demand

A drive thru/s "cluster" can often open up a wider or more substantial commercial development

DRIVE THRUS STATS

There are 2,000 Drive Thrus in the UK

Between 2015 and 2020, the number of Drive Thrus rose by 41%

Roughly 12% of fast food restaurant sales are via Drive Thru, up 50% post-COVID-19

Look out for:
whether new entrants to the market opens up new consumer demand and different design styles of Drive Thru property to match demographics

The self-storage market has exploded in the last decade with big name brands and smaller independent landlords alike seeing successful business growth, fuelled by consumer (and business) demand.

It is always hard to accurately measure the exact number of self-storage sites as they are not officially registered anywhere and small facilities can be opened in rural areas with limited marketing or online presence. However, the Self Storage Association UK estimates that there are now over 2,200 sites in the UK. Of these, 739 facilities offer predominantly container storage, and an estimated 55.5m sq ft of self-storage space.

Whatever the measurement, the market is booming for all stakeholders and currently outcompetes most other property assets. On the whole, self-storage developers and operators can compete with increasing values in an area, versus other potential uses, and the market is powering ahead for site acquisitions as a result.

In 2022, the total turnover of the industry in the UK was £990m, a figure that is set to continue to rise thanks to unwavering demand. Consumers have been storing more and more possessions since COVID-19 as the housing squeeze and more home-based work has meant space is in high demand. As locations are mostly roadside or on industrial estates situated near A roads and the country's network of motorways, site acquisitions, and subsequent planning and building work, is relatively simple thanks to the 'big box' format and relatively low set up requirements. The ability to quickly repurpose 'grey' or 'brown' sites is a huge benefit to those in the self-storage sector and cuts acquisition to operation time down considerably.

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The main challenges in terms of costs are rising rents and associated business rates but there are ways to mitigate these given the short-term nature of some leases, turnaround of vacancy meaning that there are technically regular empty units even if the annual vacancy rates are low.

The outlook therefore for self-storage for 2024 and beyond will continue to be positive, particularly as storage facilities become more integrated with mixed use developments comprising retail and offices or the conversion of former retail units continues apace.

ROADSIDE PERFORMANCE

IN THE LAST 12 MONTHS...

- Capital values
- Rental values
- Land values

IN THE LAST 3 YEARS...

- Capital values
- Rental values
- Land values

ROADSIDE OUTLOOK

- Capital values
- Rental values
- Land values

Look out for:
Storage increasingly becoming part of the property mix on retail parks, roadside schemes and commercial developments together with postage storage lockers

SELF STORAGE TOP 5 CHALLENGES

Potential for international operators challenging UK players in the market and competing for sites

Affordability squeeze means consumers will be looking to save regular costs wherever possible

Short term nature of some storage, thanks to incentives ending after 3 months, deter pinched consumers from long-term space and thus recurring income

Business rates are increasing as rents rise which impacts both landlord and lessee

SELF STORAGE TOP 5 OPPORTUNITIES

Rising rents are powering development and higher land values, locking other development types out of competition for sites

Conversion of existing buildings and/or brownfield sites are comparatively simple

Relative ease and lower cost of fit out means operations can be set up quickly

Consumer demand continues to be strong as the housing market is constricted and homeowners want more space

Operators benefit from income from 'add-on' services such as retail, logistics, postal and delivery items

Sport

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The UK has established itself as a global leader in sports, both as a participation activity and spectator event. This reputation in sports stems primarily from two key strengths.

First, the presence of several major sports brands' headquarters or substantial operations in the UK provides a strong sports business infrastructure. Top sports entities like the Premier League, Lawn Tennis Association, and R&A call the UK their home.

Second, the UK has a proven track record of successfully hosting high-profile global sporting events such as the Olympics, The Wimbledon Championships, Cheltenham Festival and The Open Championship. The UK's wealth of experience in organising and executing world-class competitions enables flawless delivery of these events year after year. With this blend of sports business infrastructure and operational expertise, the UK has firmly solidified its stature as a sporting powerhouse.

The UK's sporting scene comprises venues of varying sizes and types from prestigious jockey clubs, racing and golf courses to stadiums and complexes.

Large stadiums with capacities over 20,000 that host major league games rely heavily on substantial revenues from ticket sales, broadcasting rights, corporate sponsorships, and financing from sports teams or franchises to fund construction and operations. For example, top-flight clubs with global brands such as Manchester City leverage huge investments, lucrative advertising deals, and high-value sponsorships to maintain premier venues.

In contrast, less well known stadiums and sports complexes such as football clubs with capacities under 5,000 have more limited revenue sources. With minimal access to broadcast rights or mega sponsors, these community facilities depend predominantly on membership fees, hourly facility rental fees, concessions, and small local events to fund upkeep and expenses.

All UK sports facilities, regardless of size, face rising pressures to modernise for inclusion, sustainability and safety. Expanding footprints for greater accessibility and diversity is highly challenging due to space constraints. Upgrades like eco-friendly irrigation and lighting systems bear real costs not offset by new revenues. With the fast-paced action and crowds, sporting events also bring unique health and safety challenges. Comprehensive protocols are crucial for issues like capacity limits, evacuation, first aid, disease prevention and more. While advancing social values is clearly the right thing to do, significant costs are incurred without financial upside.

On a positive note, the UK has seen growing audience engagement across various sporting events, not just football. Other sports like Formula One racing have also gained tremendous global followings over the years. The British Grand Prix held at Silverstone Circuit drew over 450,000 fans in 2023. To respond to surging crowds, Silverstone added off-track entertainment like F1 festivals to enhance the experience.

By leading in fan experience enhancements, British sports are likely to maintain substantial followings and reputation for must-see events. But, while big events get bigger, tertiary events struggle with basic, unavoidable costs.

Despite this, the UK's blend of sports business acumen and operational expertise has firmly established its position as a global sporting leader. Despite rising pressures, proactive investments to advance social values and audience engagement will ensure this reputation continues. The Multi-Sport Grassroots Facilities Programme is investing over £300m between 2021 and 2025 to upgrade facilities across the UK. This vital funding enables essential improvements to pitches, changing rooms, and other infrastructure so local communities have access to quality spaces to participate in sport. The scale of this investment demonstrates government commitment to developing sporting opportunities for all while maintaining the UK's reputation for world-class sporting events.

TOP 5 CHALLENGES

DECARBONISATION - while sporting estates and stadiums are keen to play their part, buildings in this sector are difficult and costly to 'green', making return on investment difficult to achieve, but still possible in some areas

SEASONAL USE - most sporting facilities are used sparingly - for 'matches' or 'meets' at specific times, or seasonal, and so return on any investment or improvement works is always more expensive when usage is restricted

DENSITY - the UK's stadiums are often in highly dense locations with surrounding housing and notoriously difficult to extend and refurbish, often meaning a location move if at capacity

BUILD COSTS - build costs have soared in the last 3 years with steel in particular rising by at least 40%, affecting sporting stadium refurbishments and builds

REPURPOSING - previous sporting assets can be complicated to repurpose into housing or other use due to their previous 'community use' or green (in the case of golf clubs, horse racing and similar) attributes

TOP 5 OPPORTUNITIES

MEDIA & SPONSORSHIP - as TV and sponsorship ramps up investment into sports globally, this has a positive impact on investment into the associated real estate which needs to both serve a TV audience and represent a positive brand reputation

CUSTOMER EXPERIENCE - the need to provide a positive customer experience has led to investment in sports real estate with more and better hospitality and leisure facilities, including wayfinding and infrastructure

SOCIAL MEDIA AND TECH - social media, data and tech are responsible for driving a keener interest in sportsmen and women which in turn is causing increased demand for seeing them live, while the physical and the technical are combining with a positive impact for sports grounds

DIVERSITY - the rise in interest for more diverse sports such as women's football is widening the audience and driving demand for spectator events and grass roots educational sport which has a knock on opportunity for sporting real estate

COVID-19 - post-pandemic, fans demand a physical experience and participate more in physical sports

STATS

There were 4,997 sports facilities businesses in the UK as of 2023, an increase of 1.5% from 2022

116 stadiums across all sports with capacity over 10,000 in the UK

Five stadiums currently under major development work in the UK

There are 12 key planning for sport principles in the UK to protect, enhance and provide sport

Watch out for:
increasingly new technology linking physical sports with digital applications

Transport & Infrastructure

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Transport Infrastructure projects attract private investment but are also subject to fluctuations in policy, costs and timelines. In late 2023, the northern leg of HS2 (phase II) was scrapped by the Government, meaning no high-speed connection to Manchester and the northern powerhouse. This garnered a mixed response across the UK, tempered somewhat by the promise that the £36bn saved would be spent on a number of other regional connectivity projects for the Midlands and the North.

The increase in material costs, especially steel, and supply chain constraints for both materials and labour post-Brexit has also caused obstacles in delivering such projects. Timelines have been moved out considerably, some projects put on hold and budgets have spiralled, as can be seen with Euston station and the Elizabeth Line launch in May 2022 which was four years later than planned.

Politics have also played a role in the delay of major transport infrastructure projects with Heathrow's third runway still in consultations having spent 15 years lobbying prior to becoming 'supported' by the Government in 2018.

If, and when, this third runway becomes built, it will almost double passengers that pass through Heathrow every year: 78 million passengers per annum will rise to around 140 million, and the 475,000 aircraft movements each year would rise to at least 740,000. This would have a significant impact on tourism and business with a likely knock on effect of £187bn in economic growth across the country, the creation of up to 180,000 new jobs nationally and new domestic routes, better connecting the country.

However, it's taken over 20 years since the plan was first proposed and a lot of wrangling between the airports, different lobbyists, and political support. Despite go ahead to submit planning in 2020, we are yet to see further movement on the project. With Heathrow currently at 99% capacity, a decision on the future of the project should be taken soon.

As we've seen, the success of projects once rolled out can be huge. The Elizabeth Line has received almost unanimous positivity and credited for much increased footfall and spending in the West End, concentrated in areas surrounding the stations along the line.

Transport projects also bring with them huge opportunities for placemaking and regeneration, with overstation development currently ongoing at major stations in London – Southwark, Bank, Paddington, Euston and various Crossrail hubs.

The National Infrastructure Commission (NIC) believes that the Government should commit more money (£22bn extra) to transport projects with the focus on schemes in Birmingham, Manchester, Leeds, and Bristol.

However, it also states that projects need firm commitment with one in every six pounds announced not being spent in recent years. In the current political landscape, commitment that stands the test of time is looking increasingly unlikely.

Elizabeth Line

TOP 5 CHALLENGES

SPENDING - the NIC has said that one of every six pounds of planned capital expenditure on infrastructure has gone unspent in recent years

POLICY CHANGES - the latest being phase II of HS2 but other examples include consultations on infrastructure planning policy and the ongoing Heathrow airport expansion

LABOUR - construction labour shortages are affecting infrastructure projects, causing delays

MATERIALS - like other sectors, the supply chain has faced difficulties post-Brexit, and the price of materials such as steel has soared

LIFESPAN - many significant transport programmes can take decades to bring forwards, during which time support, needs, and viability can change dramatically

TOP 5 OPPORTUNITIES

INWARD INVESTMENT - successful transport projects have the ability to transform an entire region, bringing investment, jobs, business contracts and other boosts to the economy and environment

INTERNATIONAL INVESTMENT - Middle East and Asian money has powered UK infrastructure investment for a while but now they are investing in operators too

OVERSTATION DEVELOPMENT - from high profile TFL projects to smaller placemaking development across the UK, overstation development is set to drive regeneration

CROSSRAIL SUCCESS - has driven spend and footfall in London's West End and received international praise

FUNDING - The Government has promised to reinvest all £36bn of the scrapped HS2 phase II into hundreds of new transport projects in the North and the Midlands

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STATS

70 airports in the UK

40 major ports

2nd largest urban rail network in Europe

£20.7bn spent on transport, including roads, airports, harbours, and railways in 2022 by Government

The Government announced a £30-40bn increase for 2022/23 and 2024/25

One in every £6 of planned infrastructure capex has gone unspent (NIC)

20 years - the length of time the third runway at Heathrow has been tabled

£17bn - suggested costs of building Heathrow's third runway

£187bn - suggested boost to the UK economy from a third runway at Heathrow

Vets

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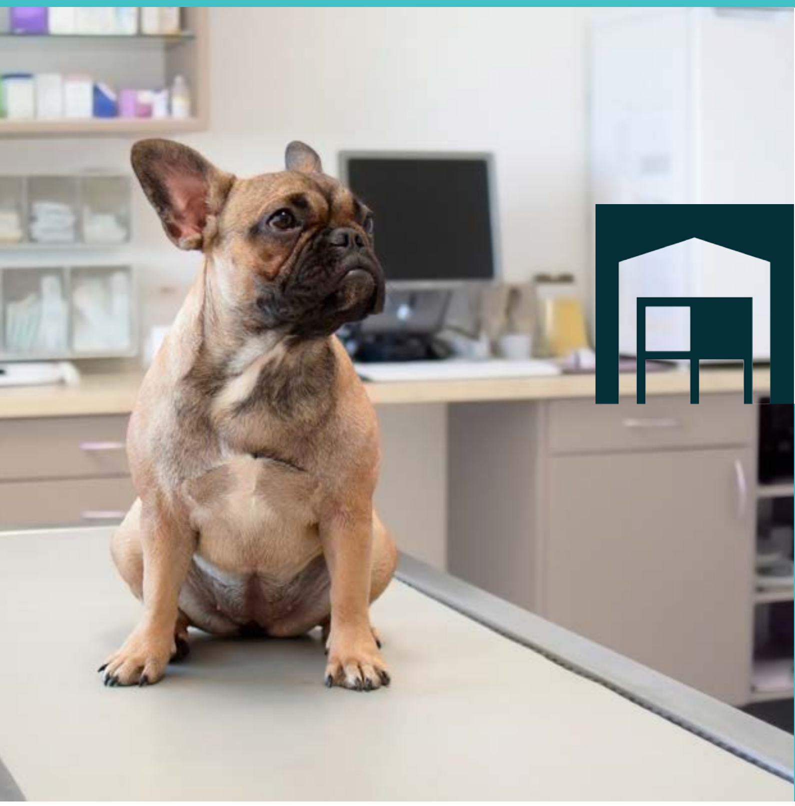

There were 2,472 properties leased or owned by veterinarian businesses in the UK (as at end of 2022). In the last 10 years, this figure has risen by 239, or almost 10%.

The last few years have seen a net decrease of vets, most likely due to the amalgamation of businesses and/or the investment into these practices who have, in turn, opened fewer premises with larger and more expensive space. Vets have joined other health services in opening much of this new space in town centres, a helpful boost for struggling high streets.

The UK veterinary industry has undergone immense growth in recent years, representing a major opportunity for properties catering to pet care services. While disposable incomes have fuelled growth so far, spending on veterinary services may face affordability challenges going forward as incomes are further squeezed. According to Which? approximately 57% of UK households, or 16.2 million, now own at least one pet. However, animal charities are reporting a rise in unwanted pets as the pandemic-fuelled growth in ownership wanes, presenting a potential headwind.

Whilst total pet ownership decreased slightly from 62% of households in 2022, the overall pet population grew 9% to 38 million animals. Dog ownership alone jumped from 9 million to 13 million between 2019 and 2021, largely driven by the COVID-19 pandemic (Martins, 2023). A report by Clearwater states veterinary services revenue expanded at a 3.2% compound annual growth rate between 2017 and 2022. This market was expected to increase a further 12.1%, reaching £5.1bn. However, as disposable incomes further crunch, spending on veterinary services may face affordability issues. Growth has been fuelled by higher disposable incomes, increased pet ownership, and the "humanisation" of pets. Advances in veterinary medicine, such as improved surgical techniques and diagnostics, have enabled vets to perform more complex procedures on pets.

The return to normal work routines has made visiting a vet more difficult, potentially decreasing demand. The surge in pet ownership during the pandemic overwhelmed many independent and corporate veterinary practices alike. Major chains like CVS, IVC Evidensia and Pets at Home have invested heavily in state-of-the-art facilities to meet the swelling demand. Still, the industry faces uncertainty. A 2023 and 2024 Competition and Markets Authority (CMA) probe triggered plunging shares across veterinary care companies, signalling potential regulatory changes.

Consolidation continues apace, with just six corporations now controlling over half of all UK veterinary practices. Though innovation presents opportunities, it has also disrupted established players and attracted scrutiny from oversight bodies. The sector also faces a worker shortage, with EU registrants in the UK dropping over two-thirds since Brexit.

Still, veterinary services weathered the pandemic better than most sectors, with GDP up 42.5% over pre-COVID-19 levels. This growth presents major opportunities for properties catering to pet wellness needs. The industry outlook remains positive but competitive, requiring strategic preparation and adaptation.

Whether or not pet ownership continues to rise over the long-term, strategic investments in high-quality vet facilities and staff will be key to harnessing the opportunities of this growth industry.

The sector has undergone transformative growth, fuelled by increased pet ownership and advancing capabilities. However, this rapidly evolving industry now faces emerging challenges around changing demand, consolidation, regulation, staffing, and affordability. Though risks remain, the overall outlook is positive for this essential sector and associated properties.

TOP 5 CHALLENGES

AFFORDABILITY - as disposable income continues to crunch, spending on pet treatments is likely to contract

UNWANTED PETS - the explosion in household pets post pandemic is waning, and animal charities are becoming inundated with unwanted animals

RETURN TO WORK - as a large proportion of workers return to the office or more normal working hours, their pets become less of a priority and visiting a vet is not as easy

COMPETITION - the CMA's review of competition in the pet and vet sector has caused shares to crash at leading brands

WORKER SHORTAGE - EU registrant numbers in the UK have dropped by over two-thirds since Brexit

TOP 5 OPPORTUNITIES

TECHNOLOGICAL ADVANCEMENTS - these are revolutionising the pet care landscape in the UK with spending on GPS trackers, automated food dispensers, fitness monitors and interactive toys soaring

SPEND - despite a cost of living crisis, spending on pets has soared 150% in the last two years

PETS IN TOWN - as dog friendly workplaces have exploded, this will support even more pawprints on the high street, using high street vets and pet shops

PRIVATE EQUITY - PE firms are still piling into veterinarian businesses buoyed by the growth in pet ownership, spend and tech in the UK

STRONG PERFORMERS - Vets were by far the strongest performing sector in the consumer-facing services industry with GDP up 42.5% in the sector in 2023 vs 2020

STATS

In the UK 16.2m/57% of households home 38m pets

9m pet dogs in 2019 grew to 13m in 2022

3.2m households acquired a pet during lockdown

Market value of UK vet services stands at over £5bn with further double digit growth expected

89% of vets were independent in 2013, less than half were in 2023 with over half owned by six companies alone

Vets and animal welfare tenants have taken over 240 traditional retail units on UK high streets since 2014

In 2023 there were 2,472 retail leases to vets and animal welfare in the UK, according to the Local Data Company

Watch out for:
pets 'not' at home - we expect more pet passports as owners take their beloved furry friends abroad for treatments and holidays

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