Future Cities

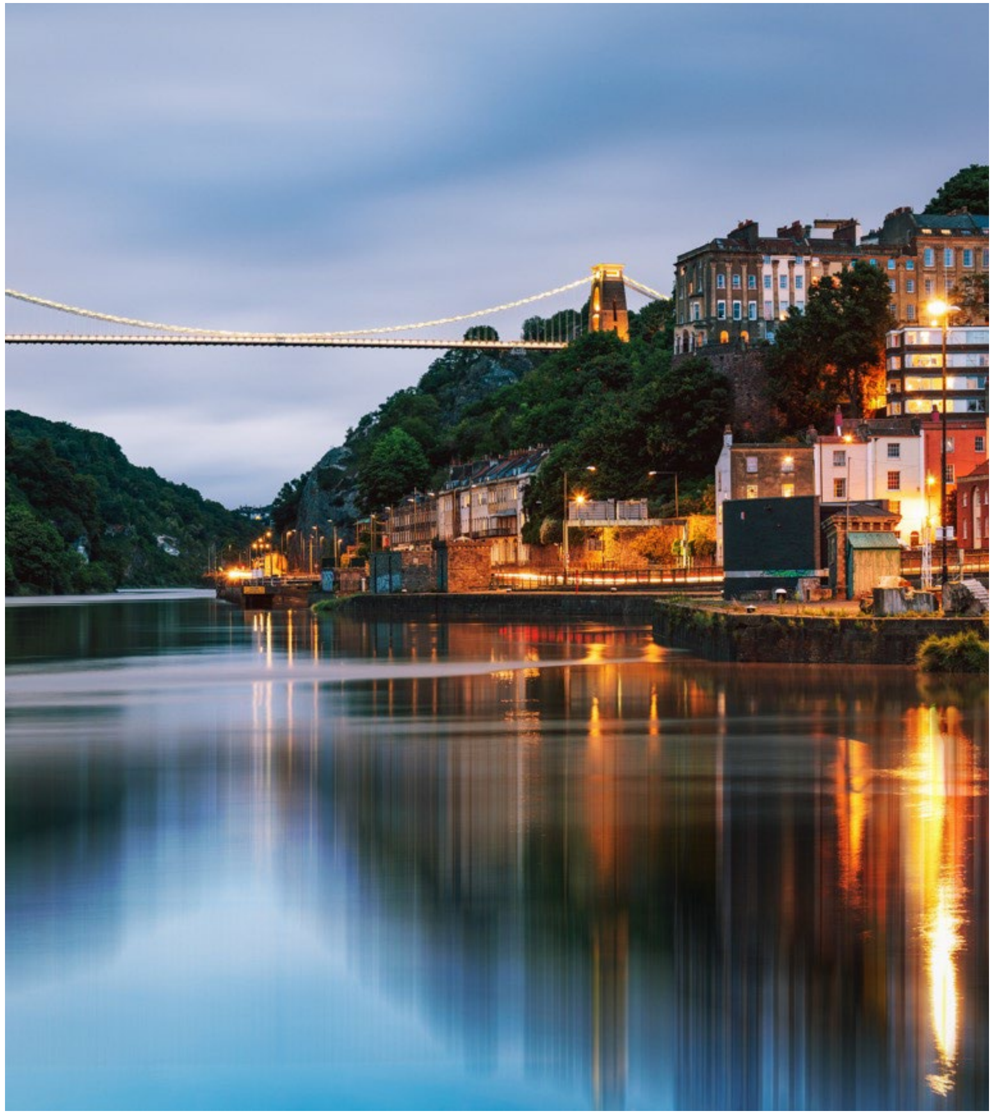
Which City? Which Sector?

Real estate prospects over the next decade

REPORT

CBRE RESEARCH
JUNE 2023

Contents



01

Introduction

01

Introduction

Real estate sectors and their performance can differ depending on their location and environment, such as the natural resources available to them, or the cultural history of the local geography. Real estate professionals need to be mindful of these differences and the impact this can have on performance and their strategies.

We have examined the prospects for a range of real estate sectors across the 50 largest regional towns and cities in the UK. To inform our findings, we analysed a range of forward-looking economic and demographic factors that support growth across the different real estate sectors. For example, a growing economic backdrop underpins growth across all real estate assets, so the prospects for real estate are likely to be more favourable in a city that is expected to see rapid economic growth. As a result, the data analysed included expected GDP, employment, and income growth.

As well as the economic drivers, we also considered demographic trends and property market data, such as the supply pipeline, local universities, and housing affordability. However, because each real estate sector has different drivers of growth, we analysed a unique combination of data, bespoke to the specific sectors. We took data from a range of sources including Oxford Economics, The Office for National Statistics, and Experian.

To arrive at our findings, we ranked and aggregated the datasets based on city performance. The overall rankings informed which city has the best prospects for each sector. From our analysis we were able to understand the prospects for the highest growth cities, highlighting their highest growth sectors, alongside the top 10 growth cities for each sector.

> The way towns and cities grow and evolve is very much reflective of their local geographies, natural resources, and cultural history. As a result, no two cities in the UK are the same, and subsequently, different real estate sectors thrive in different locations. Real estate professionals need to be cognizant of these differences to help inform their strategies.

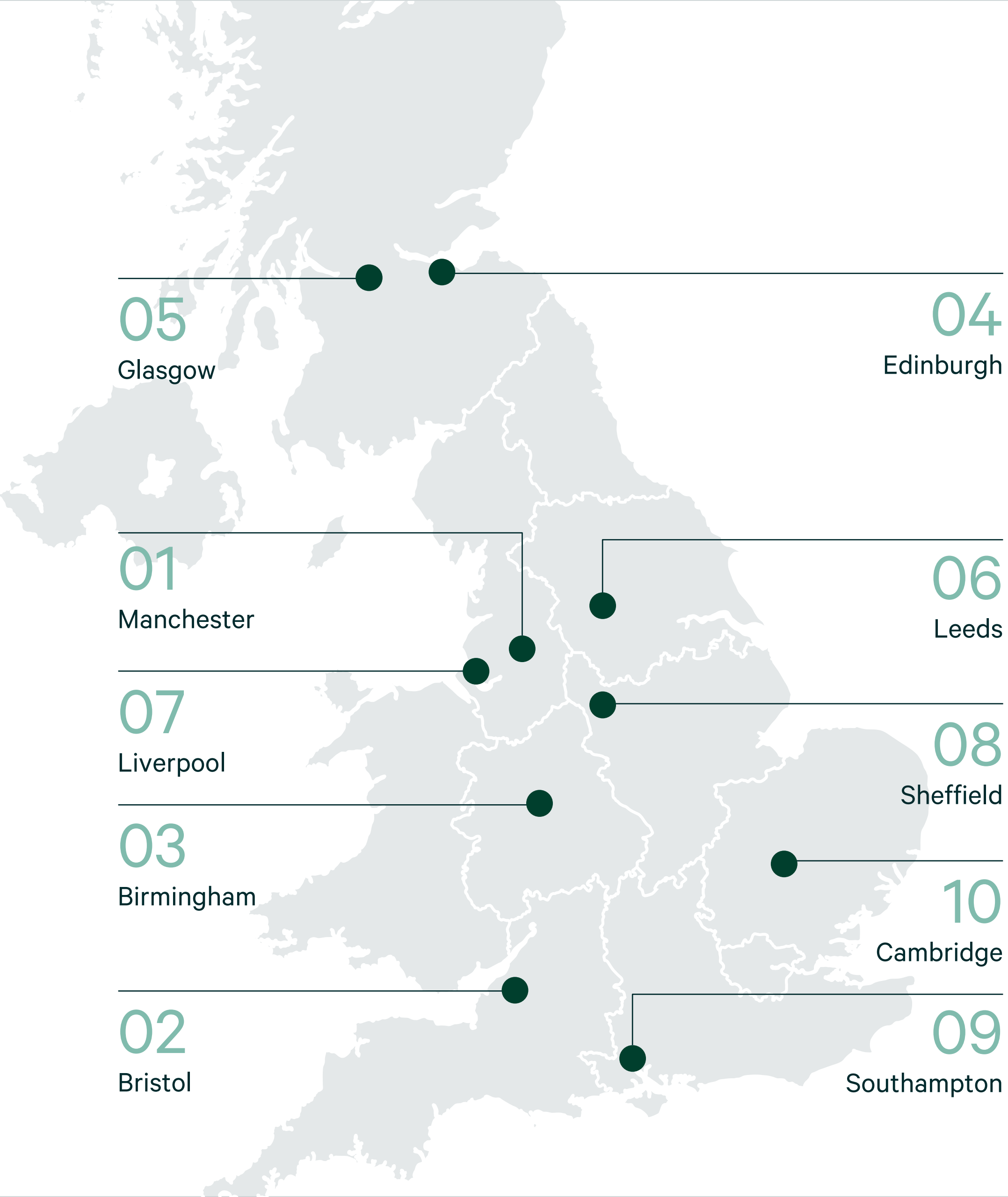
Jennet Siebrits
Head of UK Research, CBRE

02

Office

Top 10 Growth Cities

Office



Evolving workspaces

The role of the office has changed over time to maintain alignment with occupier requirements, as the way we use the workspace evolves. The movement from cellular offices to flexible and agile formats has reduced the average space requirement per employee, and hybrid working is challenging historic norms in working practices. Occupiers focusing on talent attraction and retention are considering a range of flexible, amenity rich spaces to curate the optimum user experience. But of course, in tandem with these trends, demand for office space ultimately continues to be driven by the wider economic environment.

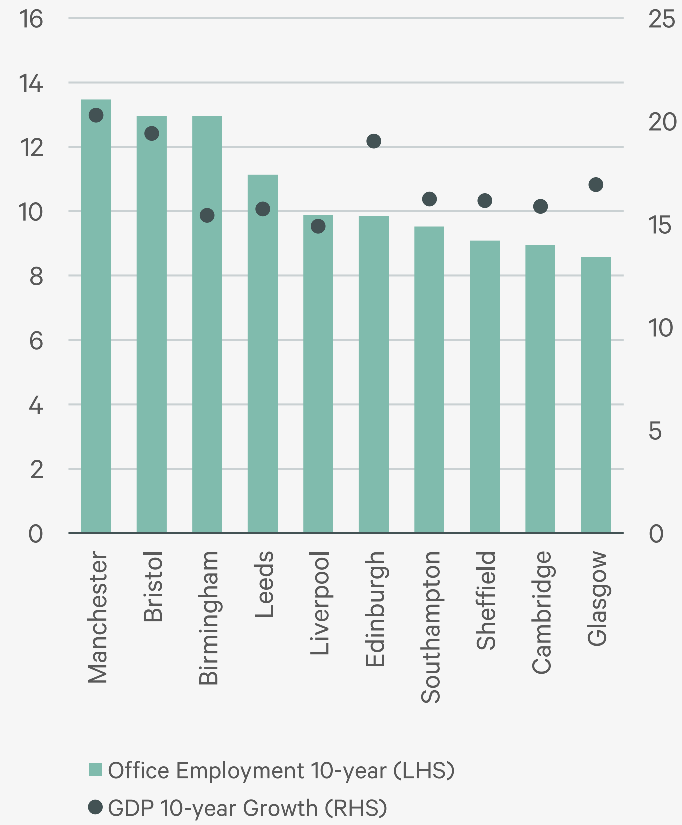
Growth cities will be determined by economic and demographic variables

When identifying key growth markets for office real estate, economic and demographic factors are fundamental. Firstly GDP growth, driven by external economic forces, impacts growth for businesses and therefore their ability to expand, or their requirement to contract. Manchester and Bristol feature top in our rankings, partly because they are expected to benefit from the strongest GDP growth.

The size of the talent pool is a key factor used in forecasting office demand, therefore growth in those of working age and populations with qualifications at or above level 4 (in 2021 and predicted growth), could indicate the potential for employment growth by office-based sectors. Birmingham and Edinburgh feature highly in our ranking, partly driven by this local highly educated talent, while Liverpool, Southampton and Birmingham are expected to see the most significant growth in this area. Out of the top 10 ranked cities, Manchester, Bristol and Birmingham have the highest forecast growth in office-based employment.

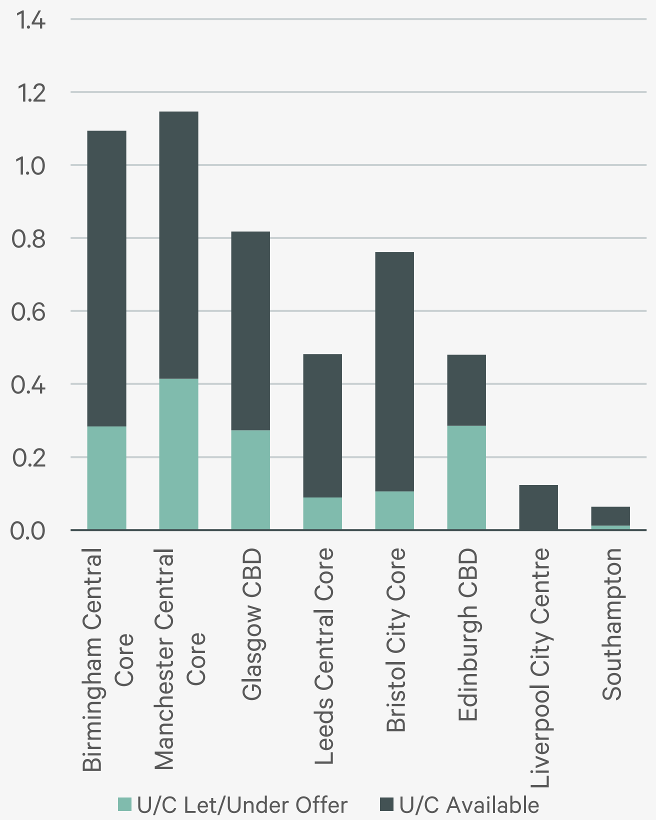
Supply factors are also key when considering a market's ability to support future demand. In the flight to quality space, we expect the pre-letting of development space to continue. Of the eight markets ranked in the top 10 which are tracked by CBRE, there is potential for 21.5m sq ft of office development space to complete before 2028, of which 5.0m sq ft is already under construction (see Figure 2).

Figure 1: Office based employment and GDP growth, 10 year projection (%)



Source: Oxford Economics

Figure 2: Office development pipeline (million sq ft under construction), 2023–2027



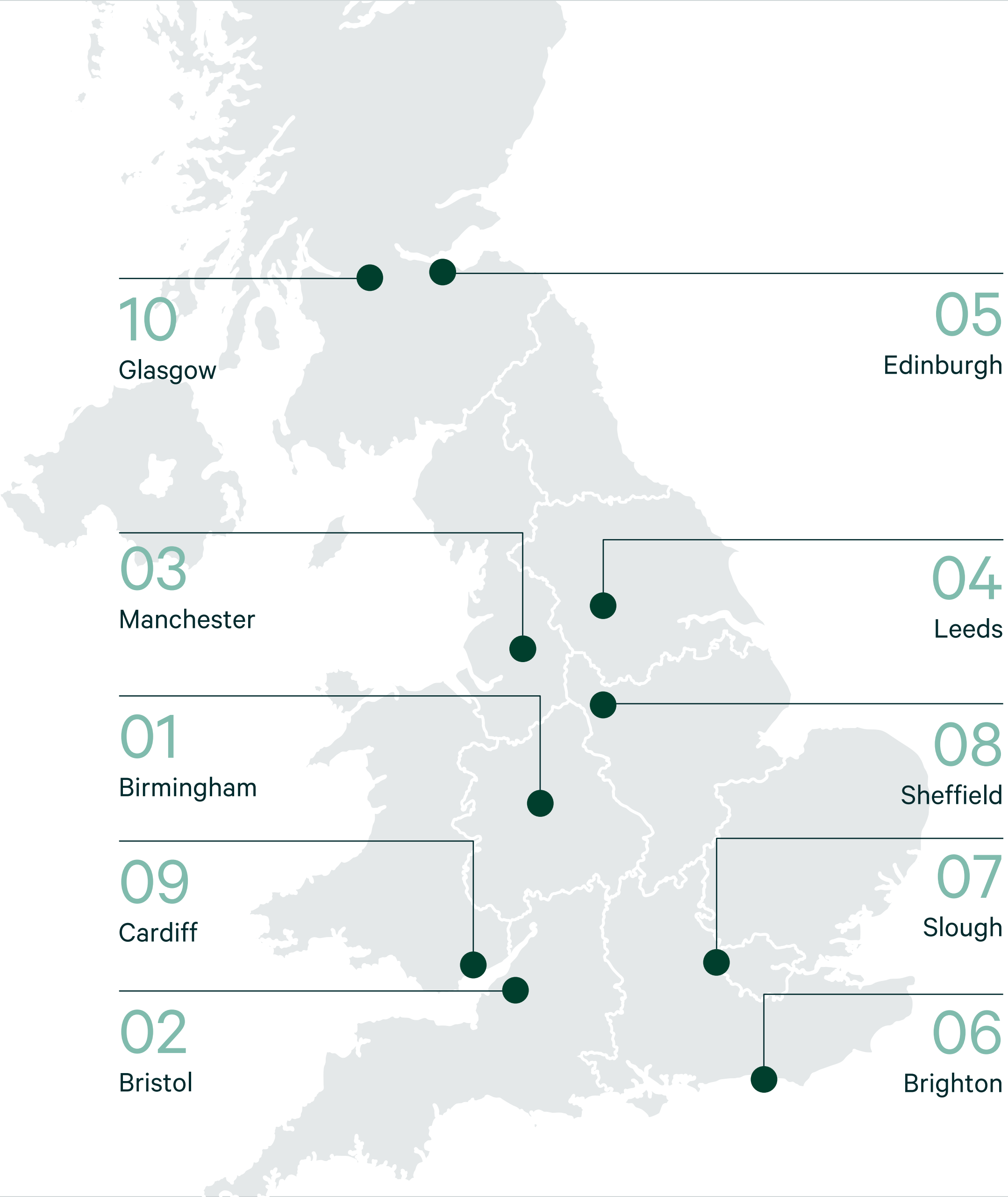
Source: CBRE Research, space under construction within top 10 cities (*office markets tracked by CBRE only, excludes Sheffield & Cambridge)

03

Retail

Top 10 Growth Cities

Retail



Evolving retail

Retail continues to adapt to changing consumer habits and the evolving role of the store. While small, local destinations continue to remain relevant through their convenience, and large regional schemes benefit from their critical mass, the performance of mid-sized locations has been more challenged. With larger locations delivering greater catchment potential, and aligning with the above trends, population and expected population growth were among the metrics used in this analysis. Birmingham ranks strongest on this measure, followed by Leeds and Glasgow.

However, retail performance is not only driven by scale. CBRE's research has shown that affluent cities see healthier property performance, have lower vacancy rates and experience higher rental and capital value growth. A review of average household disposable incomes ranks Sheffield highly versus other city locations. Looking ahead, future spending growth potential was also considered. At a national level, retail spending is forecast to increase by 9.5% in the next five years. A comparison of cities highlights Bristol and Manchester as having the strongest growth potential.

In addition to the above, a critical driver of a retail location's performance is the balance of supply and demand. Allowing for the shift of some spending to the online sales channel, CBRE estimates that the volume of retail floorspace in the UK will need to decrease by 16% to reach the average sales densities of 2015–2020. Ranking cities by floorspace per capita, and a review of vacancy rate data, provides an indication of potential oversupply. As illustrated in figure 4, the majority of the top 10 potential growth cities identified have a lower retail floorspace per capita than the sample average, with Sheffield and Bristol in the strongest position. The continued repurposing of secondary retail space will rebalance supply and demand, and strengthen retail destinations benefiting occupiers and landlords alike.

Figure 3: Retail spending growth

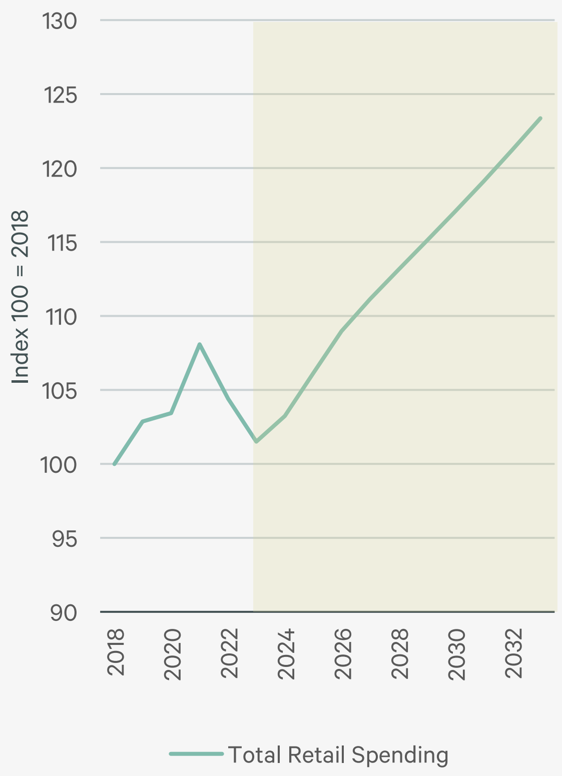
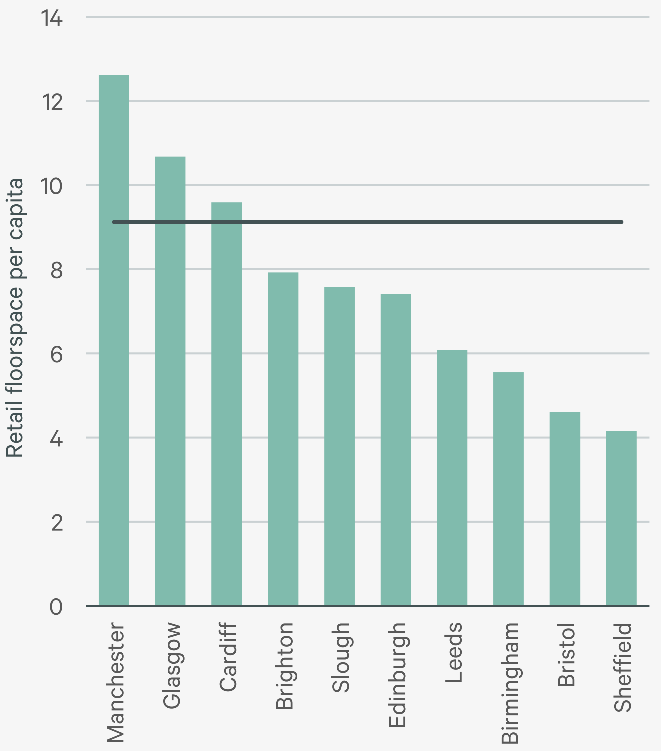


Figure 4: Retail floorspace per capita, sq ft



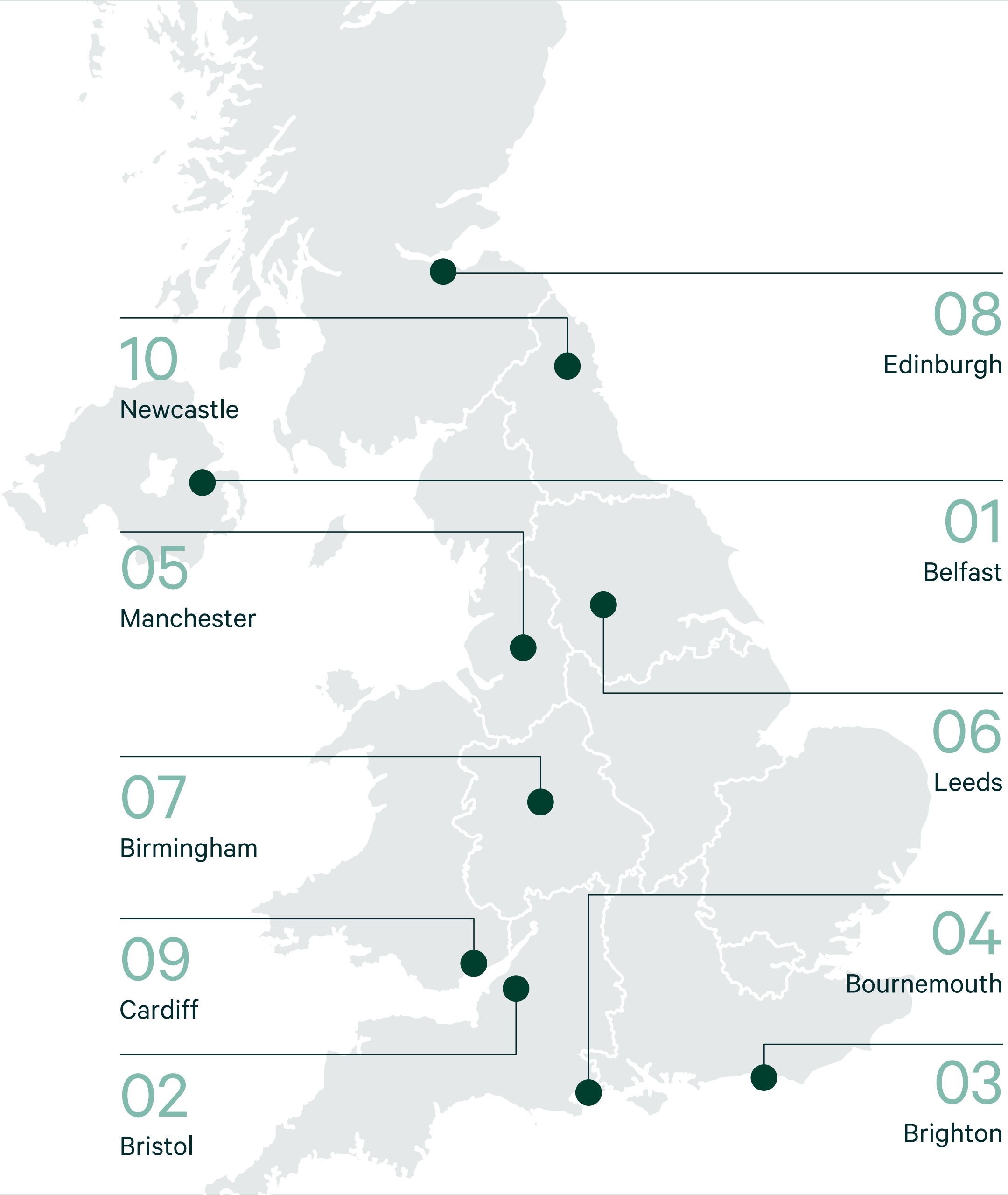
Source: Oxford Economics, GOAD, CBRE Research

04

Leisure, Food and Beverage

Top 10 Growth Cities

Leisure, Food and Beverage



Leisure, Food and Beverage

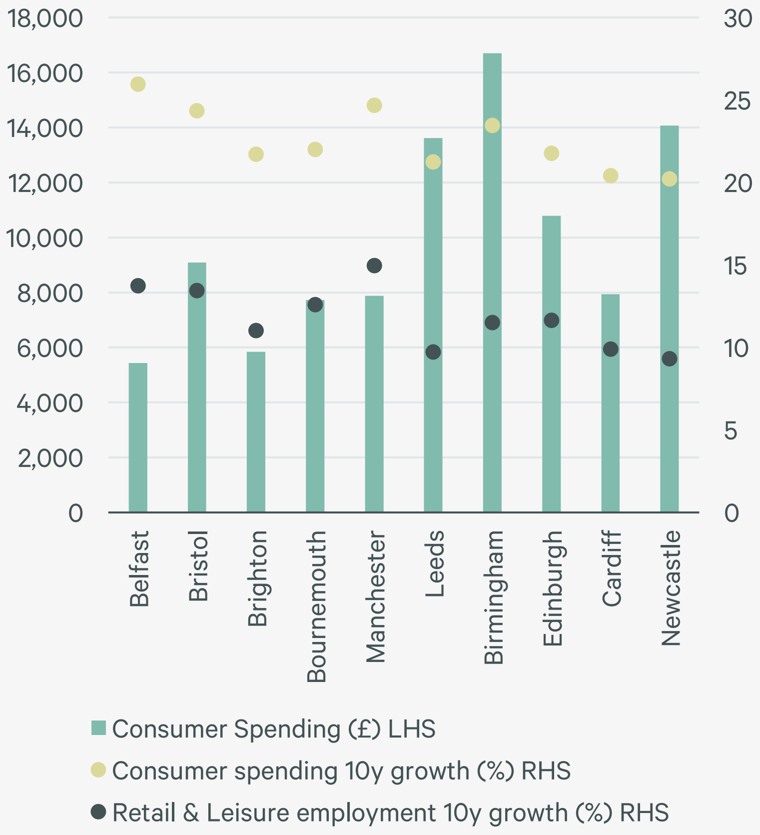
Consumer spending, retail and leisure spending, and household disposable income all drive growth in the leisure sector. While our top three cities do not currently rank highly in these metrics, over the next decade, Belfast, Brighton, and Bristol are expected to experience the biggest growth in these areas. This means the potential for growth in leisure in these cities is high.

Strong growth in overall employment is also a factor in elevating local economies and a contributing factor to how much time and money people spend on leisure activities and food and beverage.

Larger, regional cities such as Birmingham, Manchester, Leeds, and Newcastle appear in the top 10 in terms of current consumer spending power and employment. Moreover, these cities show no signs of diminishing in terms of attractiveness and consumer spending power. Consumers benefit from the array of options at different price points; the growth of the health and fitness sector will be driven by the availability of super premium boutique gyms to budget, community gyms, and both segments show strong potential for future growth.

Larger cities in our top 10 are also highly important to the food and beverage sector, driven by growing consumer spending and availability of options, whether that is Michelin star restaurants which cater to high spenders, or casual dining outlets for consumers looking for a meal and drink in their local pub or a takeaway coffee and sandwich from a cafe.

Figure 5: Consumer spending, spending growth and retail and leisure growth



Source: Oxford Economics

A number of locations within our top 10 are also featured in our top 10 for hotel growth, including capital cities Belfast, Cardiff, and Edinburgh, as favoured cities for local tourism, and day and weekend trips. The leisure and food and beverage sectors across these cities will be key beneficiaries from overseas and domestic visitor spend, while experiencing an uplift in household disposable income and local consumer spending.

Despite periods of economic hardship, squeeze on spending and slow growth, the leisure sector has fared well and proven itself resilient to headwinds. The growth in household income, consumer spending and retail and leisure spend, means consumers will reconnect with leisure and social activities that they value the most. Ultimately, enjoying a drink in the local pub, visiting the cinema or theatre, or taking part in a fitness class will continue to be a priority for consumers, and the leisure sector will remain a key contributor to local economies.

Factors considered in our analysis include:

- Consumer spending growth
- Employment growth
- Retail and leisure employment growth
- Household disposable income growth
- Retail and leisure spend

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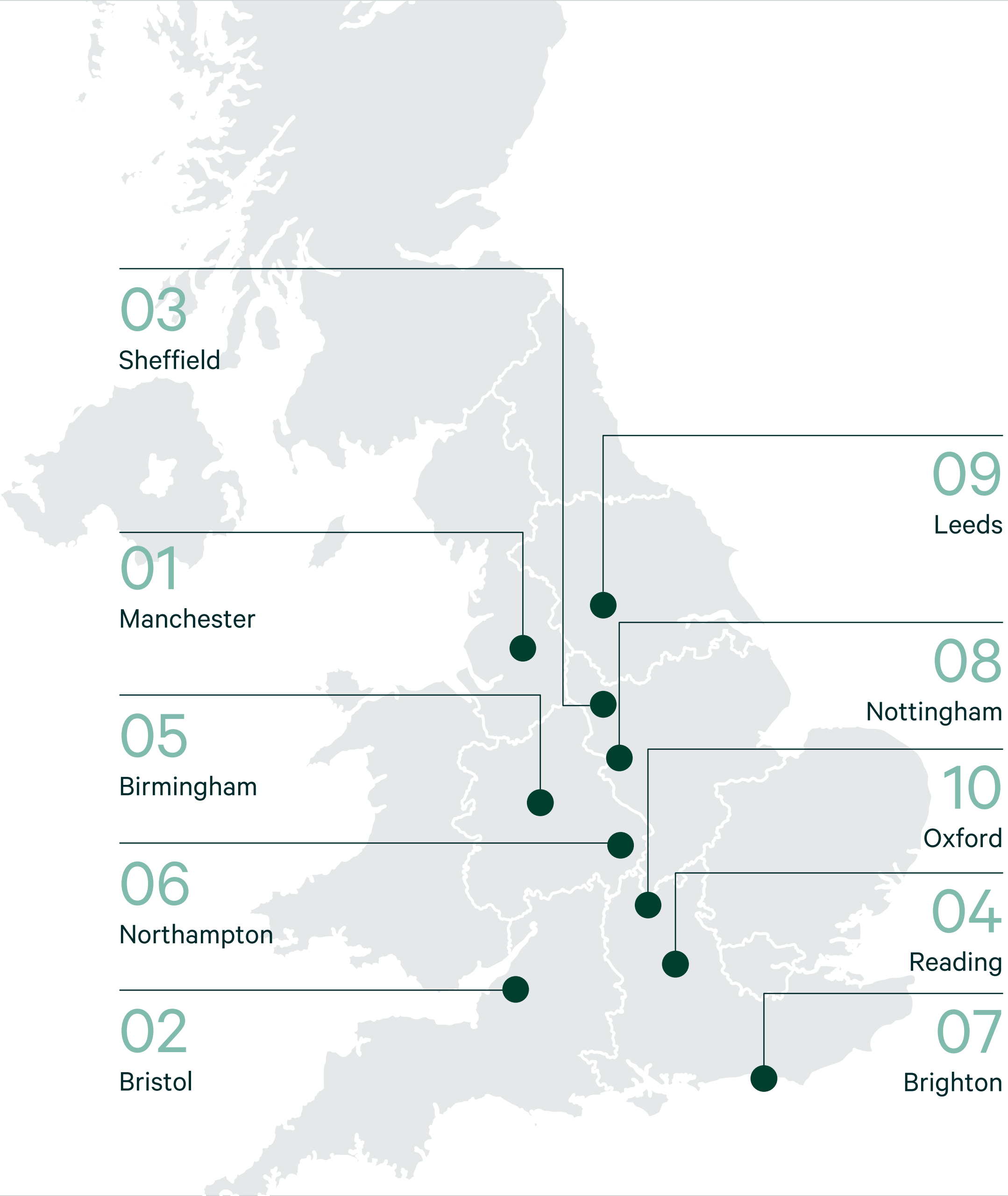
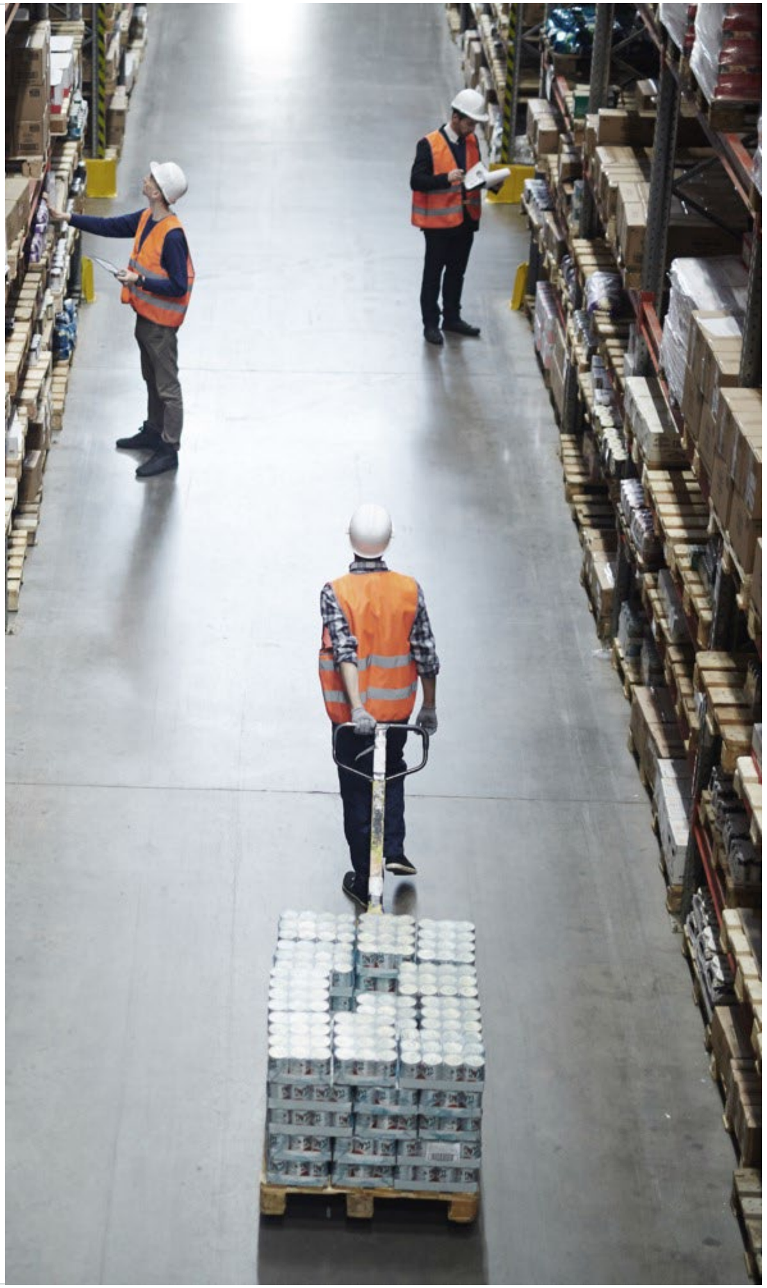
Urban Logistics

Top 10 Growth Cities

Urban Logistics





Urban Logistics

The acceleration of online retail activity (figure 6) over the last few years has had a significant impact on the demand for logistics space in the UK. Take-up of big box logistics space remains elevated, with third-party logistics distributors (3PLs) increasing their market share of take-up as they serve both the online and offline channels through outsourced supply chain processes. In Q1 2023, over 50% of UK big box take-up was by third-party logistics occupiers.

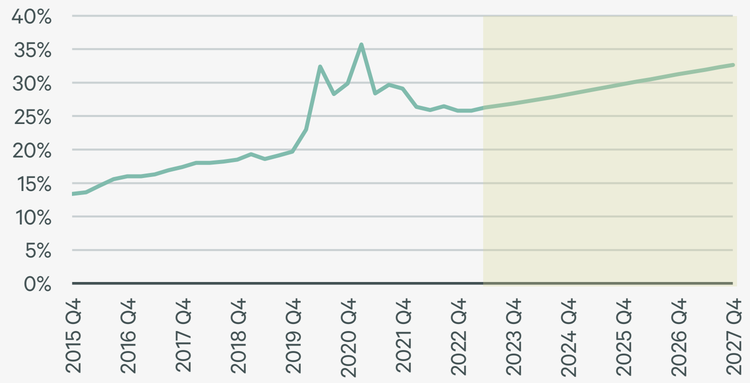
As part of this supply chain diversification, increased demand is being placed on smaller prime urban logistics facilities located in the UK's major metropolitan areas. These facilities are increasingly attractive to businesses as they can provide more agile warehouses, accommodate numerous delivery vehicles, increase cost efficiencies, and shorten delivery times for the end consumer.

Future drivers of urban logistics

With ongoing growth in online shopping a major driver in the demand for urban logistics space, we identified cities which currently have a high online penetration rate with the potential for future growth. Reading and Brighton had the highest percentage of retail spend taking place online, placing them within the top 10.

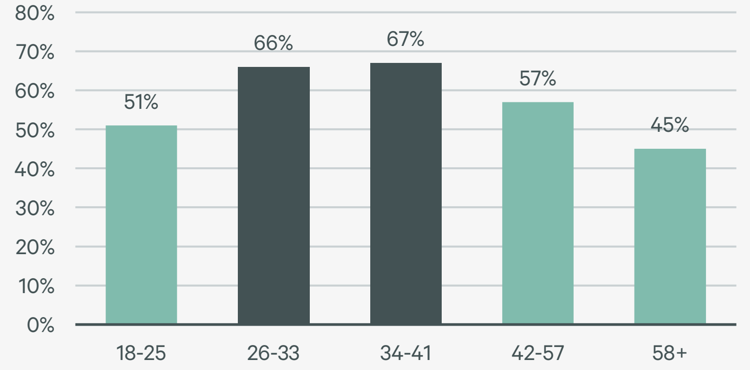
The ranking also considered which demographic groups will be driving the increase in future online spend.

Figure 6: UK online penetration rate and forecast



Source: ONS, CBRE

Figure 7: Percentage of UK consumers, by age, who shop more online than before COVID and will continue to do so



Source: CBRE Global Live-Work-Shop Report

Using the Global Live-Work-Shop Report findings, 26-41 year olds were identified as the age group with the highest propensity to shop online compared to other age categories (figure 7). Cities with the strongest growth in these age cohorts were identified as key locations where the proportion of online spending is likely to increase. These included Manchester, Sheffield and Bristol, where the population trends will fuel the future demand for urban logistics property to facilitate this demographic group's online spending.

The percentage of households with access to high speed internet was also factored into the analysis as a driver of accessibility to online channels. Oxford, Brighton, and Nottingham scored highly on this measure.

Other key demographic and economic drivers considered included GDP growth, consumer spending growth, retail spending growth and disposable income growth, all of which will lead to increased demand for consumer goods in a city. Leeds scored particularly high on forecasted growth of disposable incomes, and Northampton and Birmingham on retail spending and consumer spending 10 year growth.

Labour availability for future urban logistics facilities was also considered through city level unemployment rates. Birmingham, Leeds and Manchester have large available labour pools that future logistics occupiers could access.

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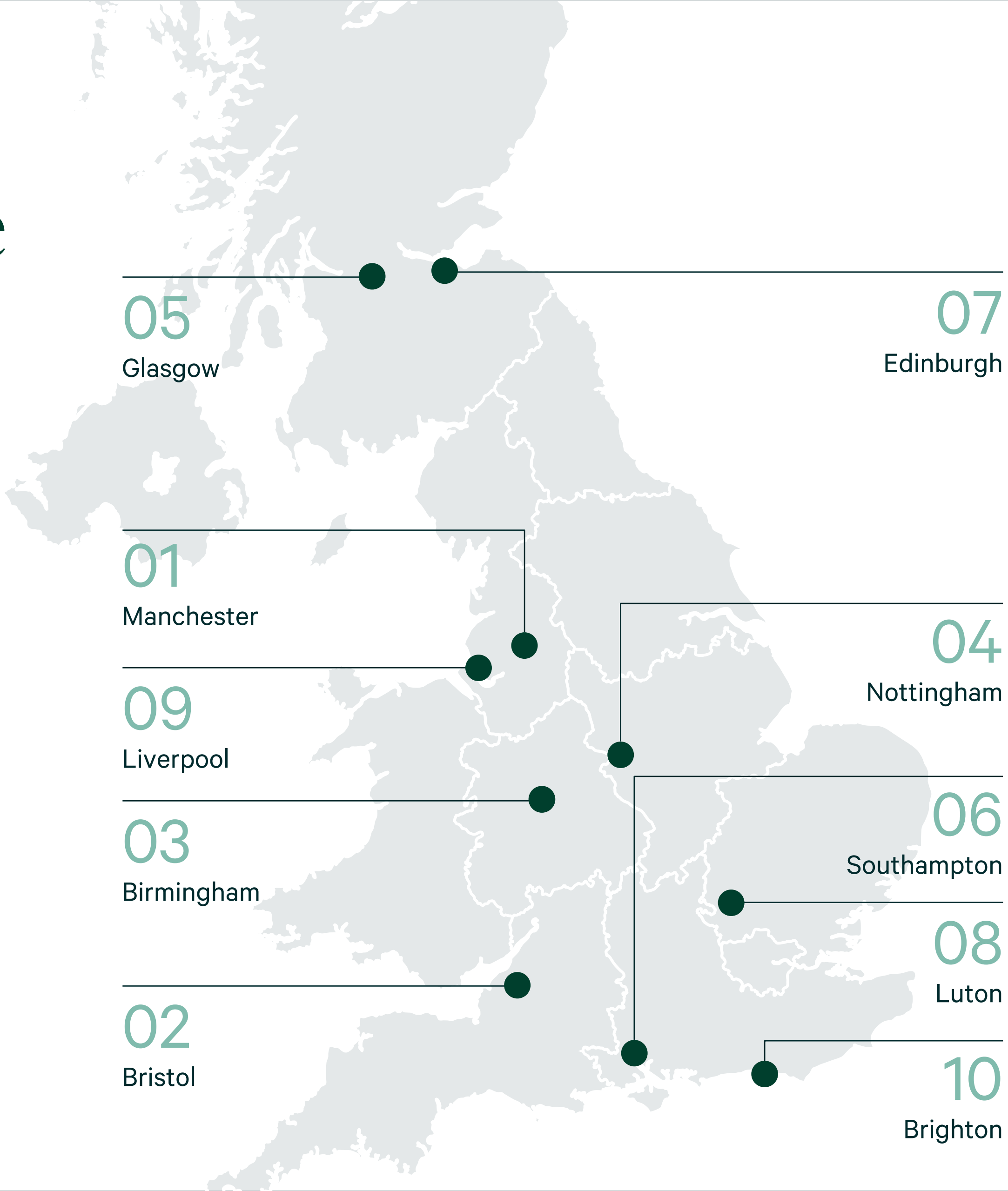
Self Storage

Top 10 Growth Cities

Self Storage



Self Storage

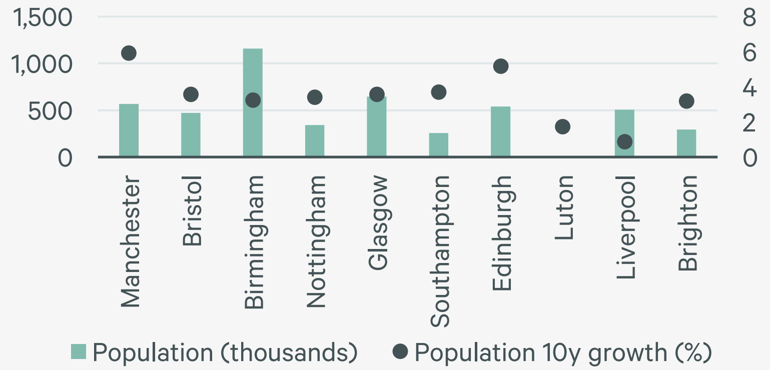
Urbanisation and lifestyle changes driving self storage demand

Self storage has emerged as one of the key sectors people turn to during big changes in life. Events such as buying a house, renovations and downsizing have led to the continued success of self storage. Added to this is a lack of available and flexible small format storage space for commercial customers in many UK markets. The sector has fared well during periods of economic hardship such as the Global Financial Crisis and the COVID-19 pandemic, and it has been relatively insulated from wider economic headwinds.

When identifying the key cities for demand, demographic factors include urbanisation, population growth, population density and the number of people in the target cohort (35-64 year olds). There was considerable overlap with drivers of residential demand such as sales and rental affordability, where Birmingham, Manchester and Bristol were also identified in the top five cities for growth.

Other key demographic and economic drivers used to identify cities for future demand include GDP growth, employment growth and household disposable income growth. During times of economic prosperity, consumers accumulate more goods and look for space to store larger items outside of the home. Cities which are forecast to experience strong GDP and disposable income growth such as Manchester, Bristol, and Nottingham, will likely record an increase in house moves and home renovations, which will drive demand.

Figure 8: UK population and projected growth



Source: Oxford Economics

Figure 9: People per sq. km

Source: ONS

Millennials' (born between 1981–1996) preference for urban locations and city centres are driving self storage demand. Millennials have been more willing to accept a smaller, expensive living space in their favoured location, and as younger generations rent for longer, they are more transient than previous generations and increasingly likely to turn to self storage where space at home is limited. Edinburgh, Glasgow, and Bristol were identified as cities that will see a rise in 35+ year olds, so self storage will be a solution for residents unable to afford larger, more expensive living spaces or a short-term solution when moving home.

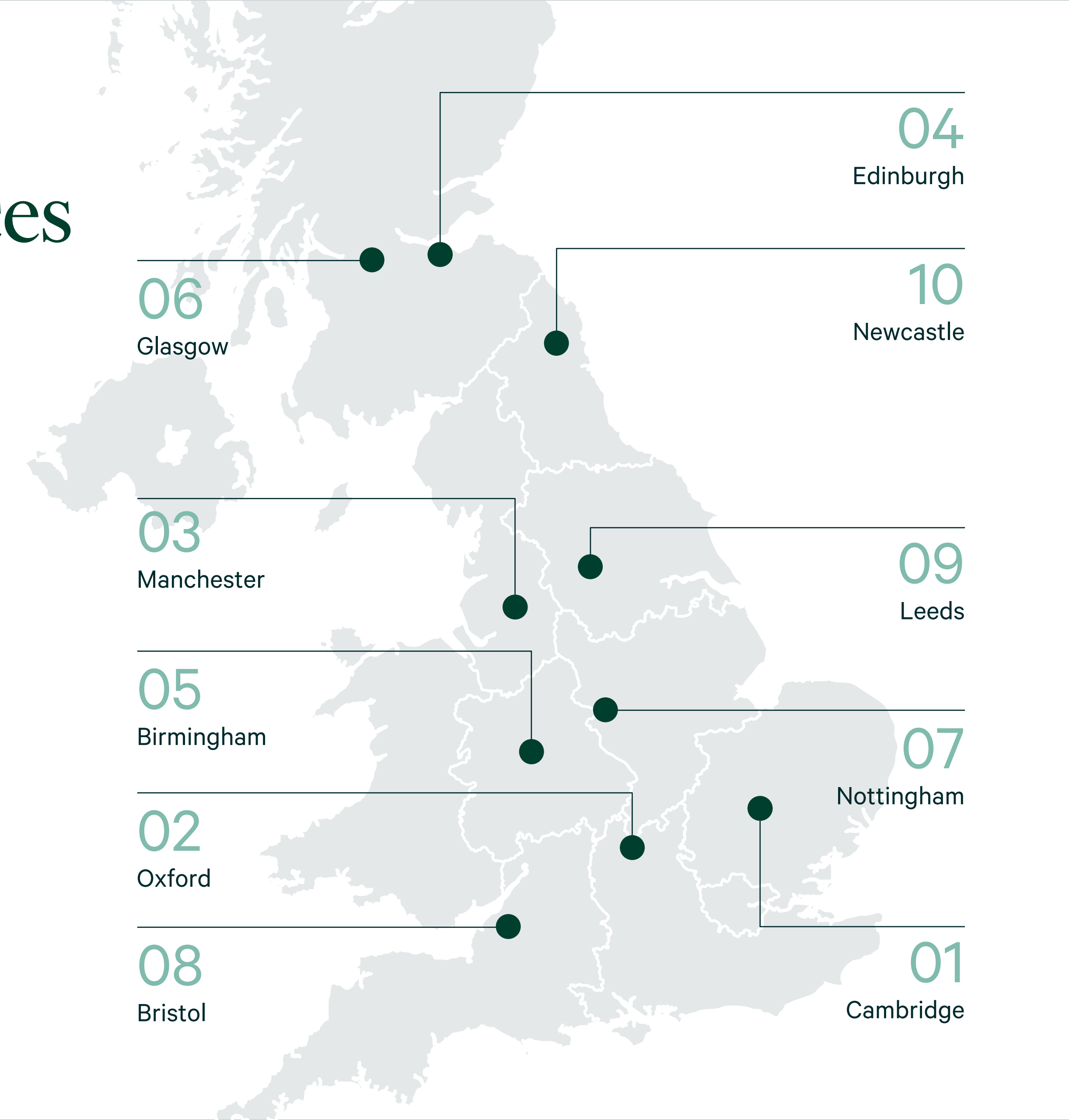
When identifying key markets for self storage, urban density is also a key factor. Cities with higher urbanisation will experience growing demand for housing, and residents will require storage facilities due to limited space in their homes. Luton scored particularly high in terms of people per sq km, followed by Southampton and Manchester.

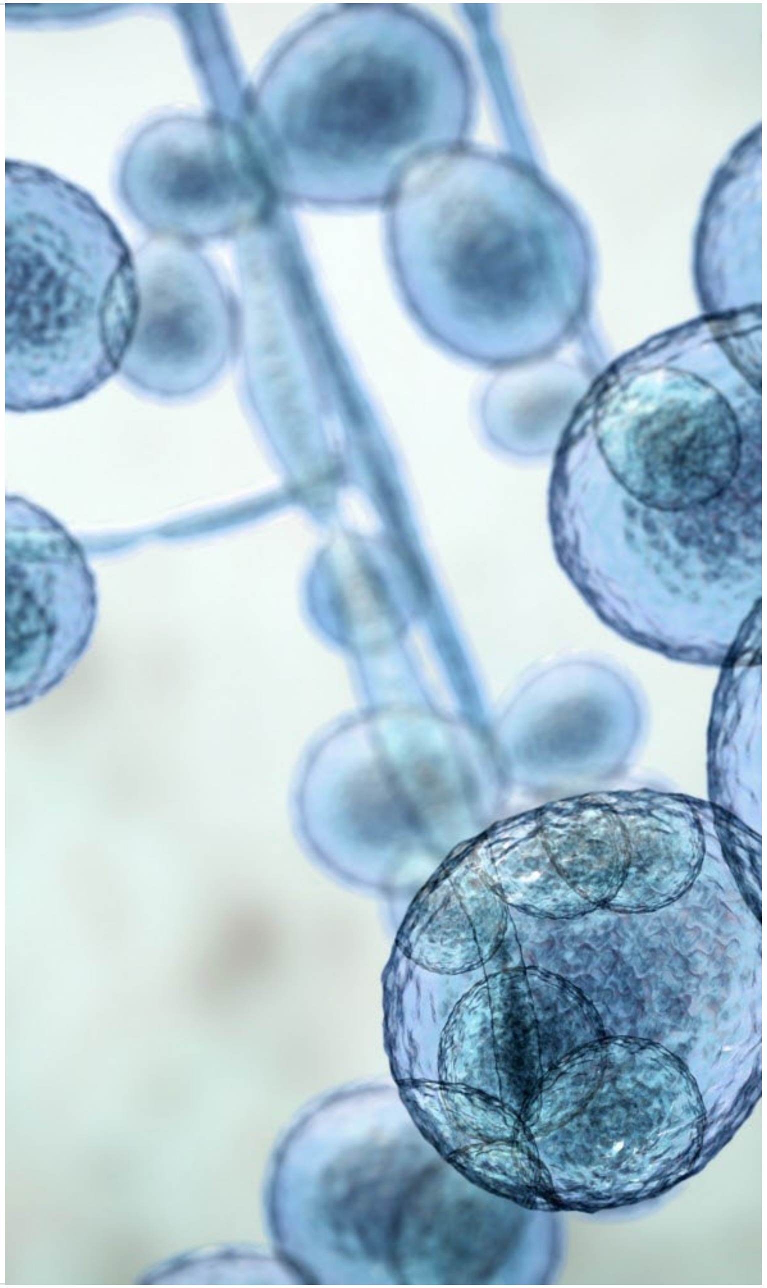
07

Life Sciences

Top 10 Growth Cities

Life Sciences





The continued growth of Life Sciences

The UK has long been recognised as the prominent hub in Europe for life sciences, being home to world class universities, research organisations and notable companies.

What makes a good life sciences city?

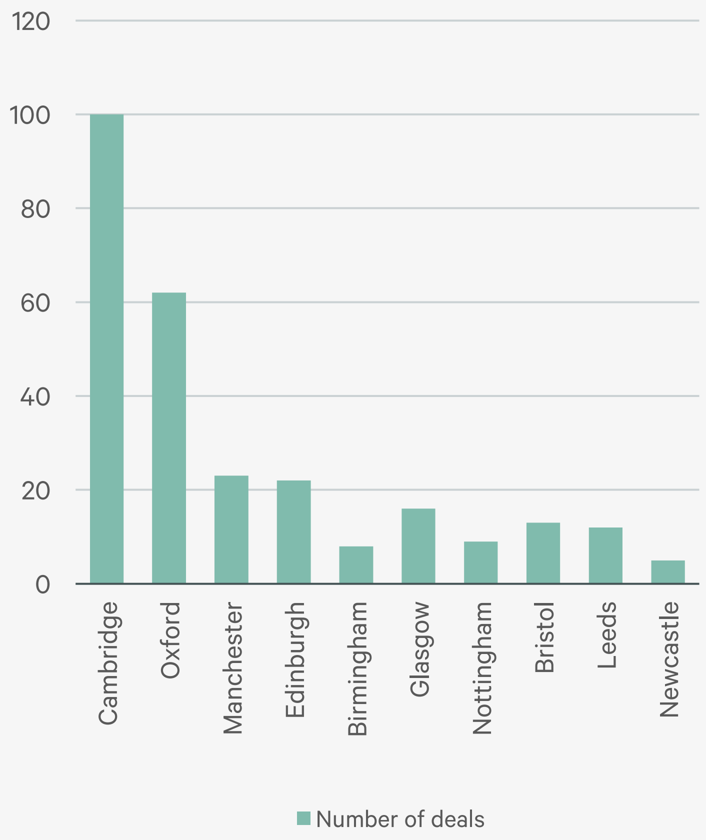
The key elements that contribute to thriving life sciences clusters include highly acclaimed universities, access to reputable teaching hospitals, research organisations, industry anchors, and most notably, access to capital, whether it be through private or public means, or ideally, a combination of both.

The existence of incubators often serves as a promising indicator for the future success of a city as a life sciences cluster, as it typically involves a joint venture between universities, governments, and venture capital funds to create a pipeline of spin-out companies. Well-established incubators have already taken root in all of these cities, laying the foundation for the emergence of young innovative companies with future growth potential.

The Golden Triangle

Oxford, and Cambridge (as well as London and Stevenage) are widely acknowledged as the traditional epicentres of the life sciences sector in the UK, and have been continually evolving. Despite already being established as hubs for innovation, the future trajectory of both Oxford and Cambridge remains strong.

Figure 10: Number of Life Science Venture Capital funding deals made across the regions 2018–2023 YTD



Source: CipherBio

The universities in these cities have consistently ranked among the top five global universities in QS rankings for biological sciences, and have been the primary beneficiaries of a significant proportion of venture capital funding (figure 10), making them highly attractive locations for life sciences companies to set up base. Reflecting their global reputations as world class innovation hubs, there is a future development pipeline of 4m sq ft and 6m sq ft of laboratory space respectively, and we expect Oxford and Cambridge will maintain their UK dominance.

The Northern Powerhouses

Beyond the Golden Triangle, other cities are developing their own ecosystem identities and capabilities. Manchester has one of the biggest science graduate populations and has strong capabilities in digital health and clinical trials. The ambitious 4m sq ft ID Manchester project will further cement the city's science and innovation potential. Similarly, Leeds is emerging as an exciting hub for medical technology and the planned 'Innovation Village' city centre science park at Leeds General Infirmary (LGI) could create up to 4,000 jobs and an economic boost of nearly £13bn.

Scotland's Life Science ecosystem is strong and thriving, with Edinburgh and Glasgow both boasting world-class research and academic institutions. Bringing together healthcare, academia, research and industry, Edinburgh's vibrant BioQuarter has a 10 year strategic plan to transition into Edinburgh's Health Innovation District which could generate up to 9,000 new jobs.

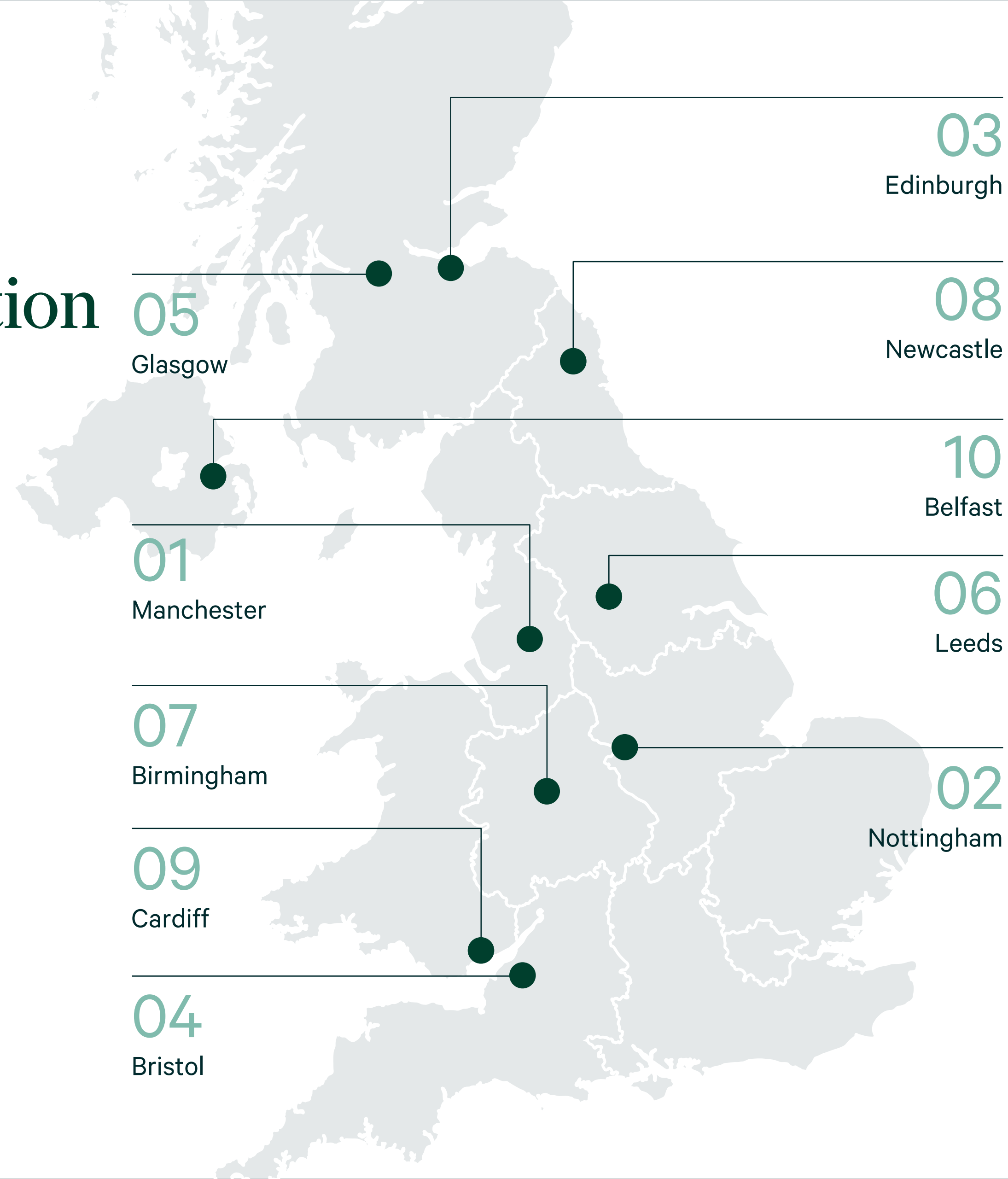
Birmingham, Newcastle, Bristol and Nottingham, whist still emerging, have the potential to build on strong foundations and develop into successful clusters in their own right over the next decade.

08

Student Accommodation

Top 10 Growth Cities

Student Accommodation



Supply and demand imbalance to persist in UK PBSA sector

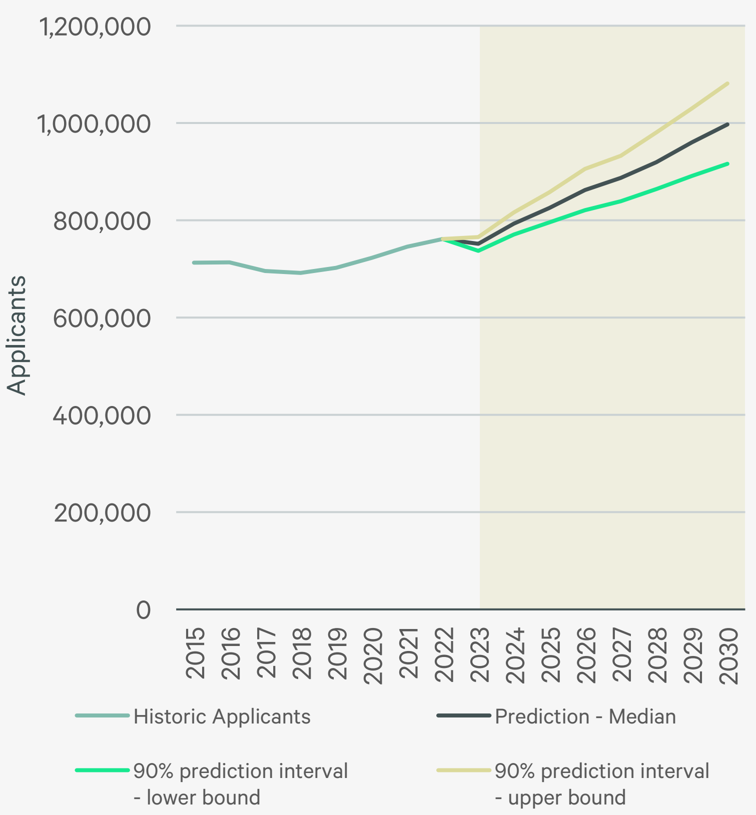
The UK purpose-built student accommodation (PBSA) sector is characterised by an imbalance in demand and supply. This is especially true in the cities we have identified. We anticipate this imbalance will remain a feature of the sector as demand for PBSA will continue to outstrip the pace of development.

Why is demand outstripping supply?

Demand for PBSA is intricately linked to the demand for higher education. The number of full-time students in higher education is currently the highest it has ever been, and this looks set to continue through to 2030. UCAS (the UK's undergraduate university application platform) reported in March 2023 that there could be up to a million applicants for higher education annually by 2030 (approximately 750,000 today). This anticipated growth is driven by increasing demand from international students and domestic 18 year olds.

While global competition is increasing, the UK's reputation as a destination for study remains strong, with 17 universities listed in the 2023 Top 100 QS World Rankings, second only to the US, underpinning why demand from international students is anticipated to grow as student mobility increases. Growth in the 18 year old domestic cohort is primarily driven by demographic and participation led trends in the UK which are set to continue to 2030.

Figure 11: Predicted growth in undergraduate applicants to Higher Education to 2030 (UK and international)



Source: UCAS

As well as compelling demand and supply dynamics, other factors have been considered in our city selection. These include the planning backdrop, top ranking universities (all cities identified are home to Russell Group universities), and wider regenerative investment, which are likely to contribute to a continued supply and demand imbalance.

PBSA supply in these cities is likely to continue to be constrained, not only by planning policy but also by site availability. With many of the "obvious" sites already developed out, those remaining available sites are subject to more competing land uses. Developers will need to be creative and we could see the emergence of well-connected satellite locations similar to those that have emerged in Greater London. Furthermore, much of the university-owned PBSA is ageing, presenting specific challenges around redevelopment and growth of university stock. This could result in some beds falling out of supply while universities grapple with this, further adding to the demand and supply imbalance.

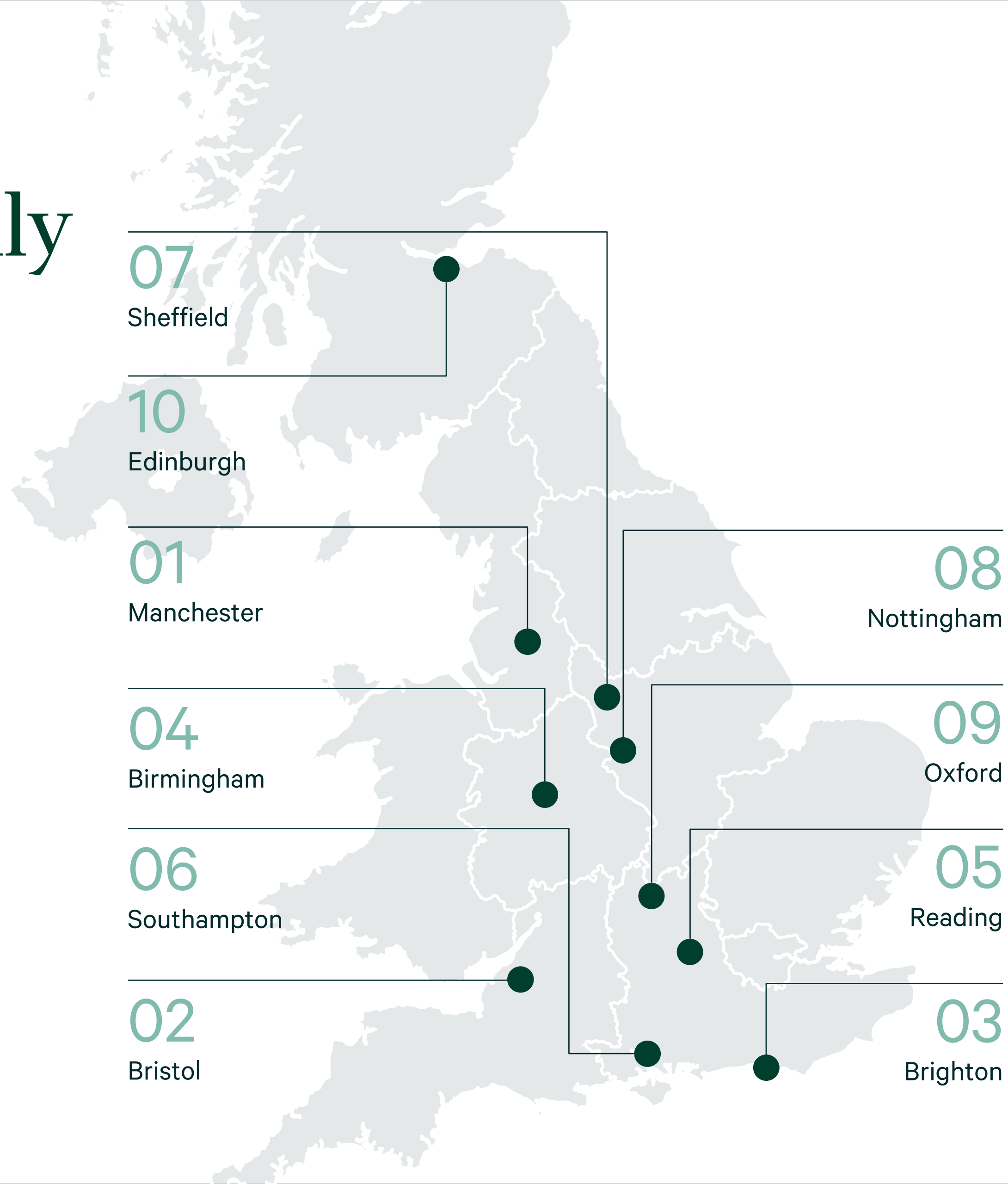
The mature nature of many PBSA cities means that they are subject to cyclical development, and some locations may experience an increase in the supply of accommodation in the next decade. This in turn may result in some short-term rental digestion as new schemes stabilise. Nonetheless, over the long-term, these locations are expected to maintain a supply and demand imbalance in the future while the student population continues to grow.

09

Multi-Family Housing (MFH)

Top 10 Growth Cities

Multi-Family Housing



Multi-Family Housing

The Multi-Family Housing (MFH) sector has seen rapid growth over the last decade. Also referred to as Build-to-Rent (BtR) in the UK, there are currently over 242,000 BtR homes either complete, under construction or in planning, according to the British Property Federation. The expansion of the sector shows no sign of slowing. Affordability challenges in the sales markets, changing consumer preferences, and a growing familiarity with the sector will continue to drive MFH demand over the next decade. High levels of city centre population growth, in particular the student-age population, along with relative rental affordability, are key determinants of which cities see the highest growth potential in MFH.

Manchester leads with strong current and future fundamentals

Manchester is ranked as the top potential growth city for MFH in 2030. It already has a large proportion of households (29%) in the private rented sector (PRS), but this will be further boosted by its very strong expected population growth over the next decade.

But will it become over-congested?

As a result of the strong fundamentals in Manchester, there is already a large existing pipeline of new homes as a proportion of existing stock. Six of the seven next-highest ranked cities see smaller residential pipelines relative to their existing stock levels. This could feed into greater demand and supply imbalances in these cities over the next decade. Conversely, Bristol is the only English city in our top 10 to have failed its most recent Housing Delivery Test in 2022. This suggests housing supply is falling short of housing need in Bristol.

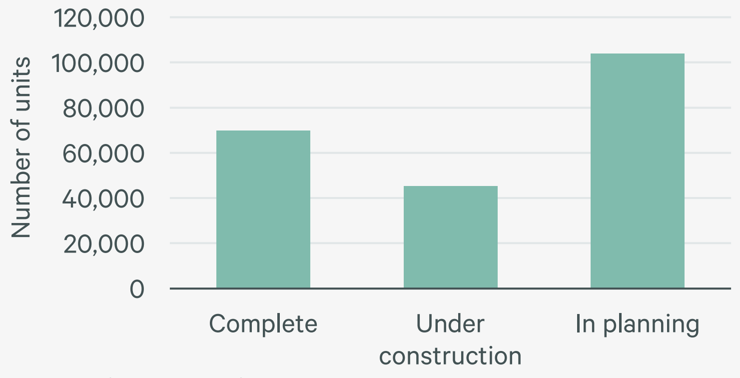
Growing student populations and affordability key for MFH

The student population is becoming increasingly familiar and fonder of MFH and is a growing demand pool for the sector. Birmingham, Bristol, Oxford and Southampton are cities in our top 10 with an expected large increase in the student-age population over the next decade.

Rental affordability is also a key factor for MFH suitability. Sheffield has the most affordable rental market for flats out of the top 10 cities, as measured by average rent as a proportion of local income. Average rental values for flats in Sheffield account for 30% of a single local income. The fact that income isn't being as stretched in Sheffield's rental market suggests greater affordability for premium MFH products. Similarly, a lack of affordability in the sales market points towards greater demand for rental housing. Brighton and Oxford see the most unaffordable sales market, with house prices being 13.1 and 11.9 times that of local incomes as of 2022, respectively.

While specific rental market dynamics are key, the sheer size of a city is also an important indicator of MFH demand. Birmingham comfortably has the highest city population, with over 1.1 million, of all ranked cities. The next highest within our top 10 cities is Bristol, with just under 600,000. Birmingham also has the largest population of renters between the age of 20 and 34. This provides a large pool of potential tenants for MFH projects within Birmingham city centre.

Figure 12: Size of UK MFH market as of Q4 2022



Source: British Property Federation

6%

Growth forecast in Manchester's population

33%

Brighton has the highest current proportion of households in the PRS

74%

The proportion of homes needed that were delivered in Bristol between 2018/19–2020/21

13.1

House price to earnings ratio in Brighton

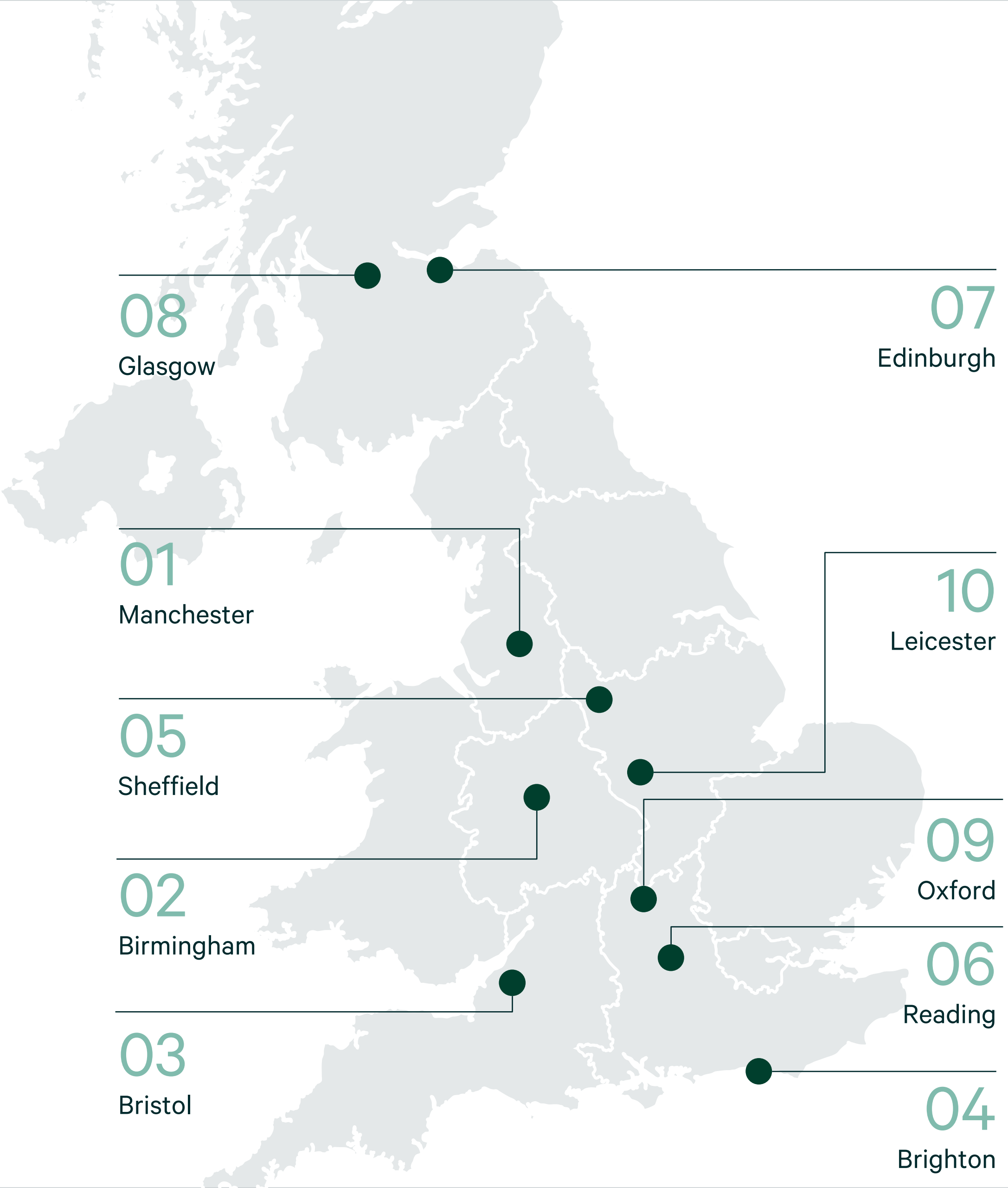
Source: CBRE Research

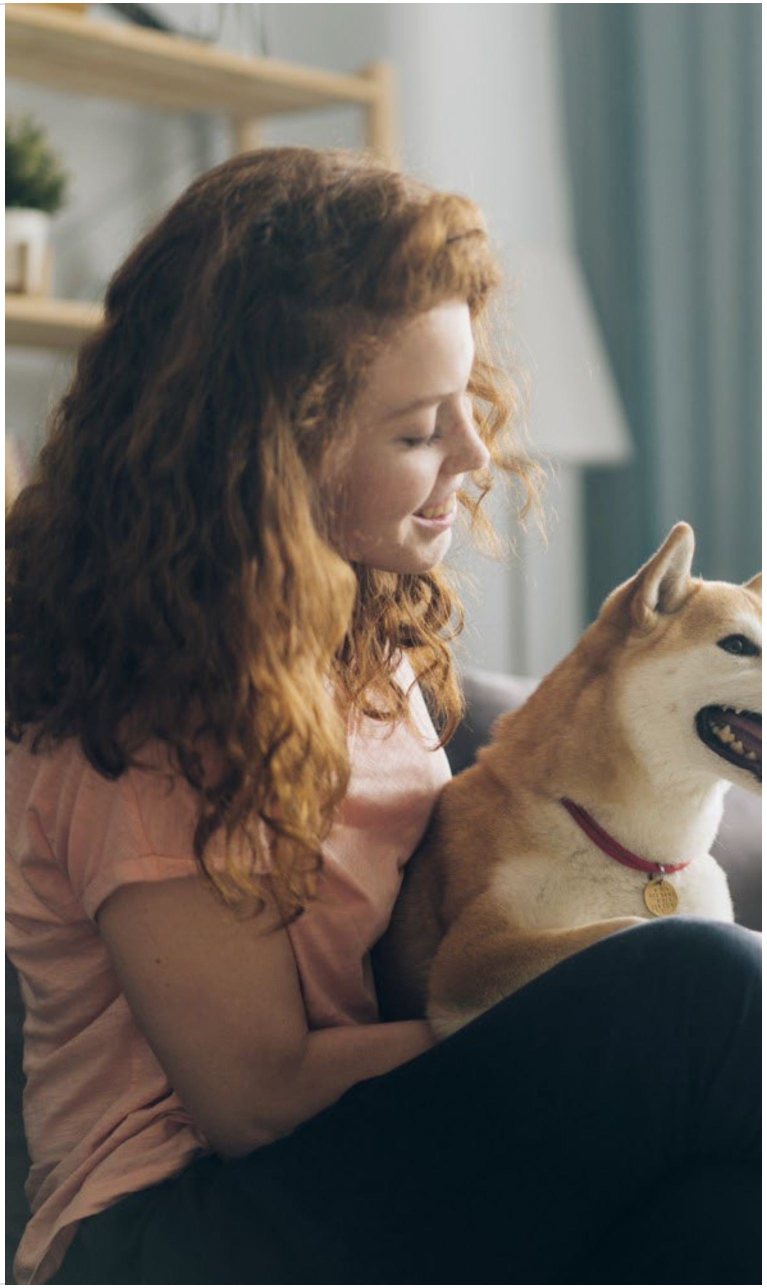
10

Single Family Housing

Top 10 Growth Cities

Single Family Housing





Single Family Housing

The Single Family Housing (SFH) sector is still in its infancy in the UK relative to other residential investment markets. However, the average age of those renting in the private rented sector has been increasing over the last decade, creating the demand for family-sized housing in the rental market. The English Housing Survey shows that 57% of the private rented market is now over the age of 35, compared with just 50% 10 years ago. Recent behavioural shifts have also seen larger homes become more desirable as families adjust to new working patterns. The SFH market has the potential to see significant growth in cities that see strong population growth in family households in particular.

Birmingham in top spot for family household growth

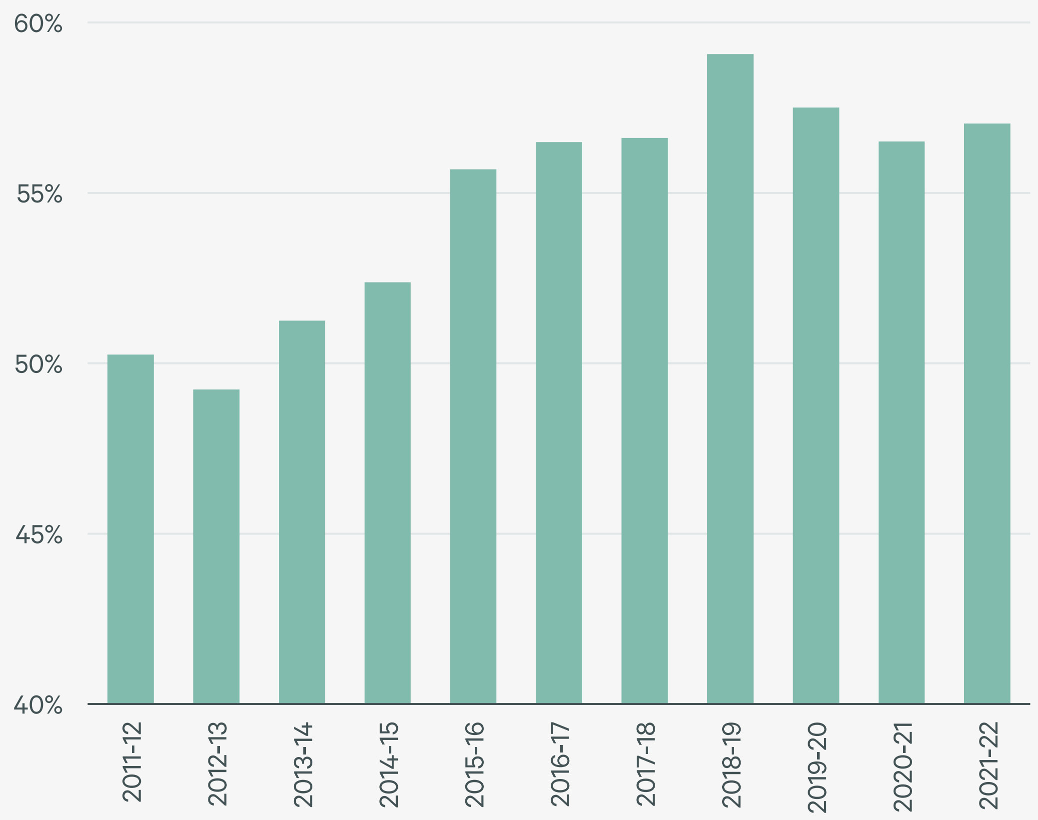
Birmingham's population projections put it in a strong position to see growth in the SFH sector over the next decade, coming second in our rankings. It already has the largest renter population, but is also ranked first for family household growth over the next five years. This demographic is a key market for SFH demand.

Scottish cities lead the way in population growth for 34–49 year olds

Glasgow and Edinburgh both make up the top 10 potential growth cities for SFH, largely down to the high levels of forecasted growth in the population aged between 34–49. This cohort is expected to grow by 23% in Glasgow over the next decade, the largest forecasted increase of all cities. Edinburgh is ranked second in this metric, with projected growth of 22%.

Strong economic growth is just as important as the right demographic for a city to be suitable for SFH. Cities like Manchester, Bristol, and Reading are forecast to see the highest 10 year growth in GDP. The introduction of Crossrail, providing extra connections from Reading to London, will help attract business investment and housing demand to the commuter town. Manchester, Brighton and Bristol, three of our top four ranked cities for SFH, are also the top three cities for employment growth over the next decade.

Figure 13: Proportion of private renters aged 35+



Source: English Housing Survey

Birmingham's

Family market is forecast to be the largest of all ranked cities in five years' time

23%

Growth forecast in Glasgow's 35–49 population over the next decade

Sheffield

has the most affordable rental market for houses out of our top 10

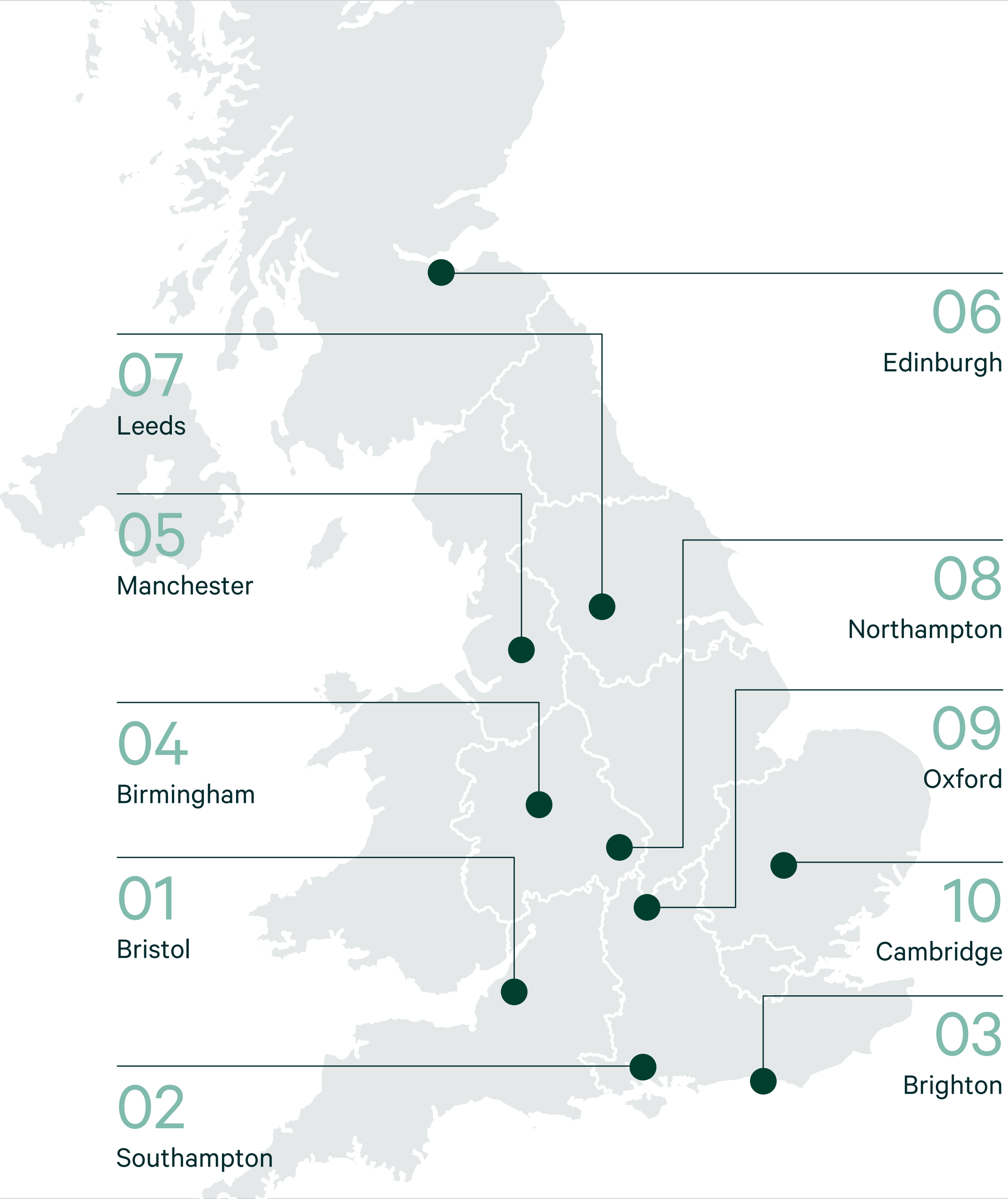
Source: CBRE Research

11

Affordable Housing

Top 10 Growth Cities

Affordable Housing



Affordable Housing

The UK is suffering from a housing crisis as supply is not matching demand. There are already over one million households on affordable housing (AH) waiting lists and the issue is only becoming more acute, given high construction and financing costs impacting viability, reducing future supply. As disposable incomes become constrained due to inflation, higher mortgage costs and rent rises, we expect demand for affordable housing to increase. All of this sits alongside traditional affordable housing providers increasingly focusing on investment into existing homes, further reducing delivery of new homes.

Private investment can go some way towards alleviating these issues and there has been an influx of private capital into the sector over the last decade. From an investment perspective, affordable housing is an attractive proposition due to the supply-demand imbalance, index linked returns, Government grant funding and ESG benefits that the sector carries. As well as private capital partnering with traditional providers, many developers and investors are choosing to enter the sector on a ‘for-profit' basis; the number of for-profit registered providers has increased markedly, particularly in the last 3–4 years. The delivery of affordable housing is not restricted to S106 packages; private units can be converted to affordable via the utilisation of grant funding.

We expect the potential for growth in affordable homes to be driven by demand factors including population and household growth, employment growth, high unaffordability for both rental and sales, and lower disposable incomes versus the regional average. These factors all indicate cities where it is difficult to access housing in the open market, and where demand will therefore be high for affordable housing. However, while demand is high in some cities, open market pricing and lack of land may lower viability and deliverability.

Bristol is top of our list for affordable housing delivery and investment

Bristol is ranked as the top potential growth city for AH in the next decade, scoring highly across the majority of the metrics used. Bristol is forecast to see strong employment growth over the next decade (6%) and is already relatively unaffordable when considered in the context of local incomes, from both a rental and ownership perspective. On average, rents comprise 57% of incomes and the house price to earnings ratio was 11.37 in 2022. 4% of the city's population is already on the AH waiting list (with recent cuts to lower priority households likely to put more pressure on the PRS) and with the city's land supply constricted, this is likely to continue to increase as supply cannot keep pace with demand. Southampton shares similar fundamentals to Bristol, but as its planning process ranks top of our UK cities, it may have fewer restrictions on delivery.

Rental and sales unaffordability indicates barriers to accessing open market housing

Rental affordability is a key factor for AH suitability. Brighton and Oxford have the two most unaffordable rental markets out of the top 10 cities, which is measured by the average rent as a proportion of local income. Average rental values for flats in Brighton account for 70% of a single local income, while in Oxford the figure is 68%. The fact that incomes are being stretched to this extent in their rental markets indicates the challenge that will exist in accessing open market housing, increasing the need for AH. As a point of reference, Homes England's Capital Funding Guide suggests that total rent should not exceed 40–45% of the net average salary.

Similarly, a lack of affordability in the sales market points towards a greater demand for AH. Oxford, Cambridge and Brighton have the most unaffordable sales markets, with house prices being 14.5, 13.7 and 13.6 times median local incomes as of 2022, respectively.

6%

Employment growth forecast in Bristol and Manchester

100%

Of planning consents agreed within 13 weeks in Southampton

1.16m

The city population of Birmingham, the largest in the UK outside of London

70%

Of local income spent on rent in Brighton

5%

Population growth projected in Edinburgh

Source: CBRE Research

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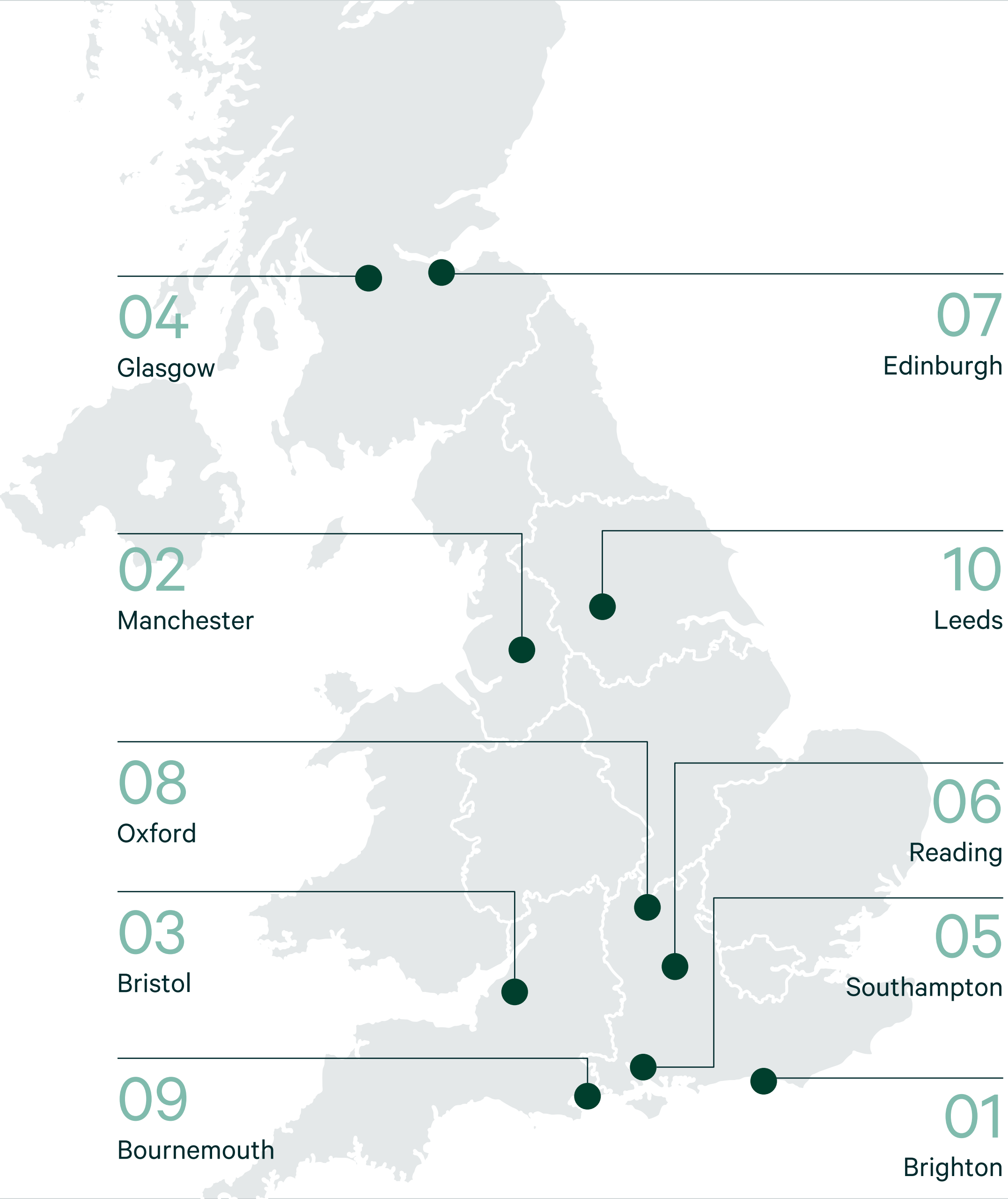
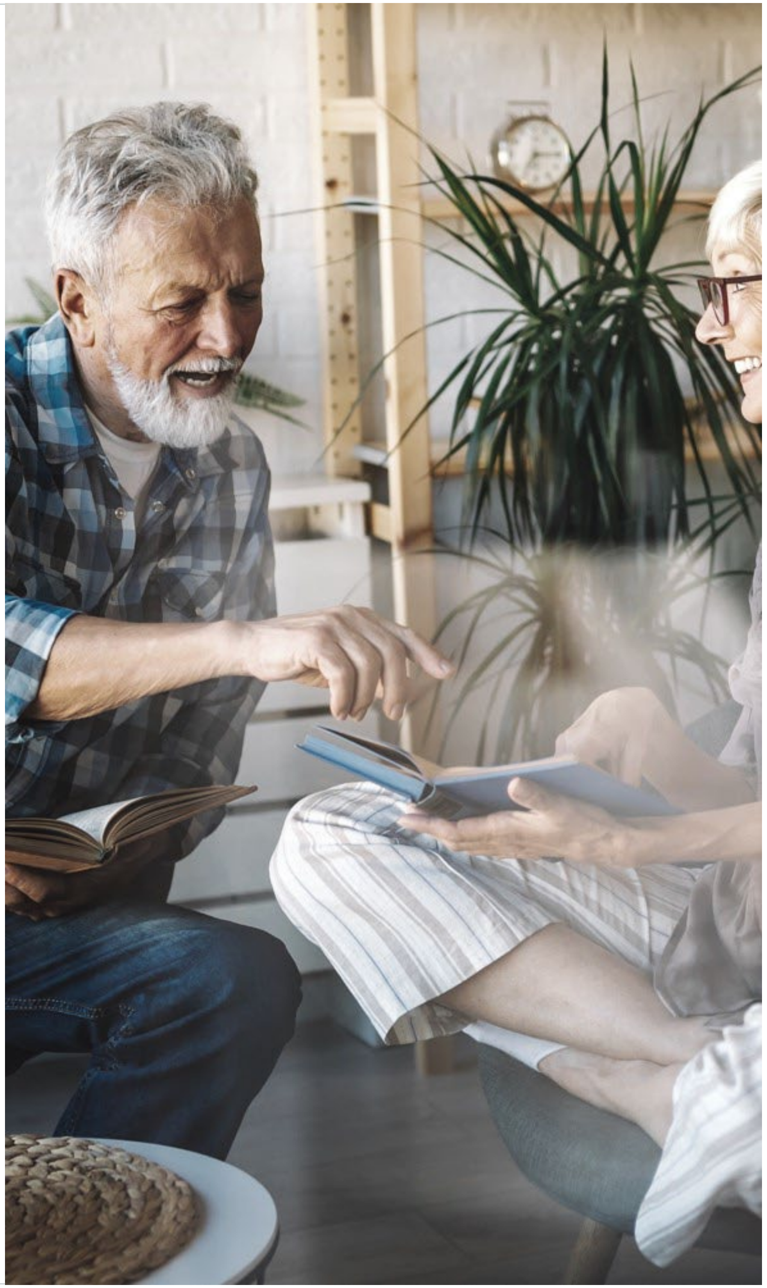
Senior Living

Top 10 Growth Cities

Senior Living





Senior Living

Growing demand for senior living

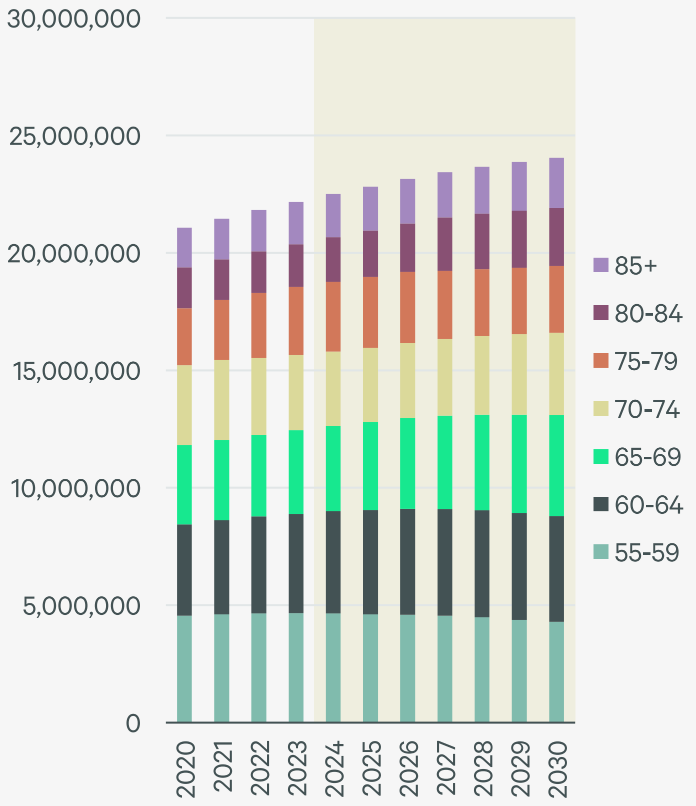
Due to improved health services and living standards throughout the 20th century, the average life expectancy of the population at all ages has risen significantly. And with that, the demand for senior living is expected to significantly exceed current supply as Baby Boomers (born between 1946–1964) reach retirement age. By 2030, the number of people aged 65–74 is forecast to increase by 17.4%, and 75–84 year olds by 27.0%. Manchester in particular is forecast to experience one of the highest increases in the over 65s, closely followed by Brighton.

Unlike registered care homes, which provide accommodation and care for people with high care needs, senior living encompasses age-appropriate living spaces and lifestyle options for older adults, typically aged between 75–85, whilst offering the security of on-site care, restaurant, leisure and social activities.

Housing Learning and Improvement Network (Housing LIN) estimates that there is somewhere between £750bn to £3tn by value of housing equity held by our elderly populations, that if sold, could unlock around 3.5 million family sized properties (18% of the total residential market). Accordingly, addressing the shortfall of senior housing will have advantages across the housing ladder, and making recommendations to the Government on unlocking and accelerating development of all types of senior living will be the focus of the recently announced Older People’s Housing Taskforce.

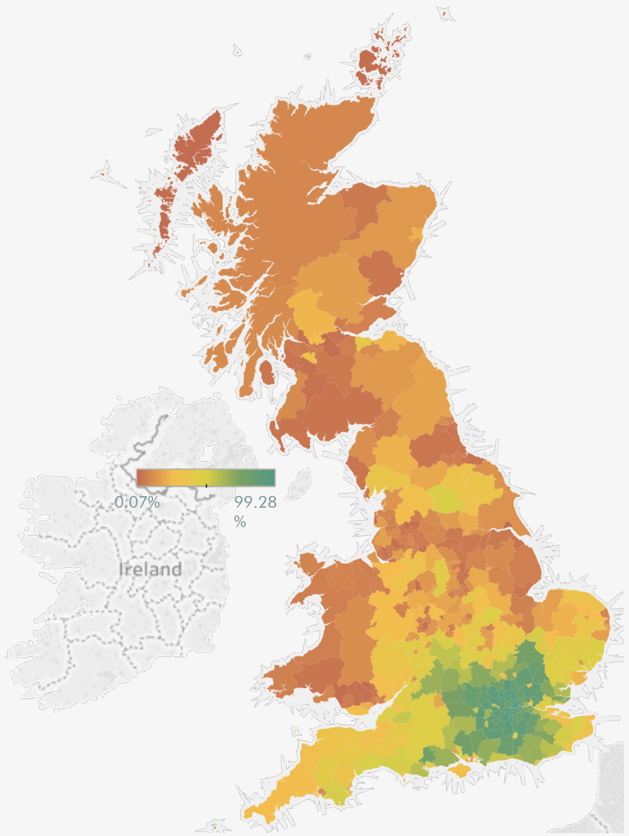
Development of senior living schemes has to date been primarily focused on the most affluent areas of the UK, such as the South East and London due to the high cost of construction and land. However, as the sector evolves and mid-market models gain traction to include rental and shared ownership, then we forecast that new development will more closely align with where the expanding pockets of elderly populations will be over the next decade such as Manchester, Bristol, and Glasgow.

Figure 14: UK 55+ population growth projections



Source: Experian

Figure 15: Proportion of people aged 65+ with a house price greater than £300,000



Source: Experian, Housing LN

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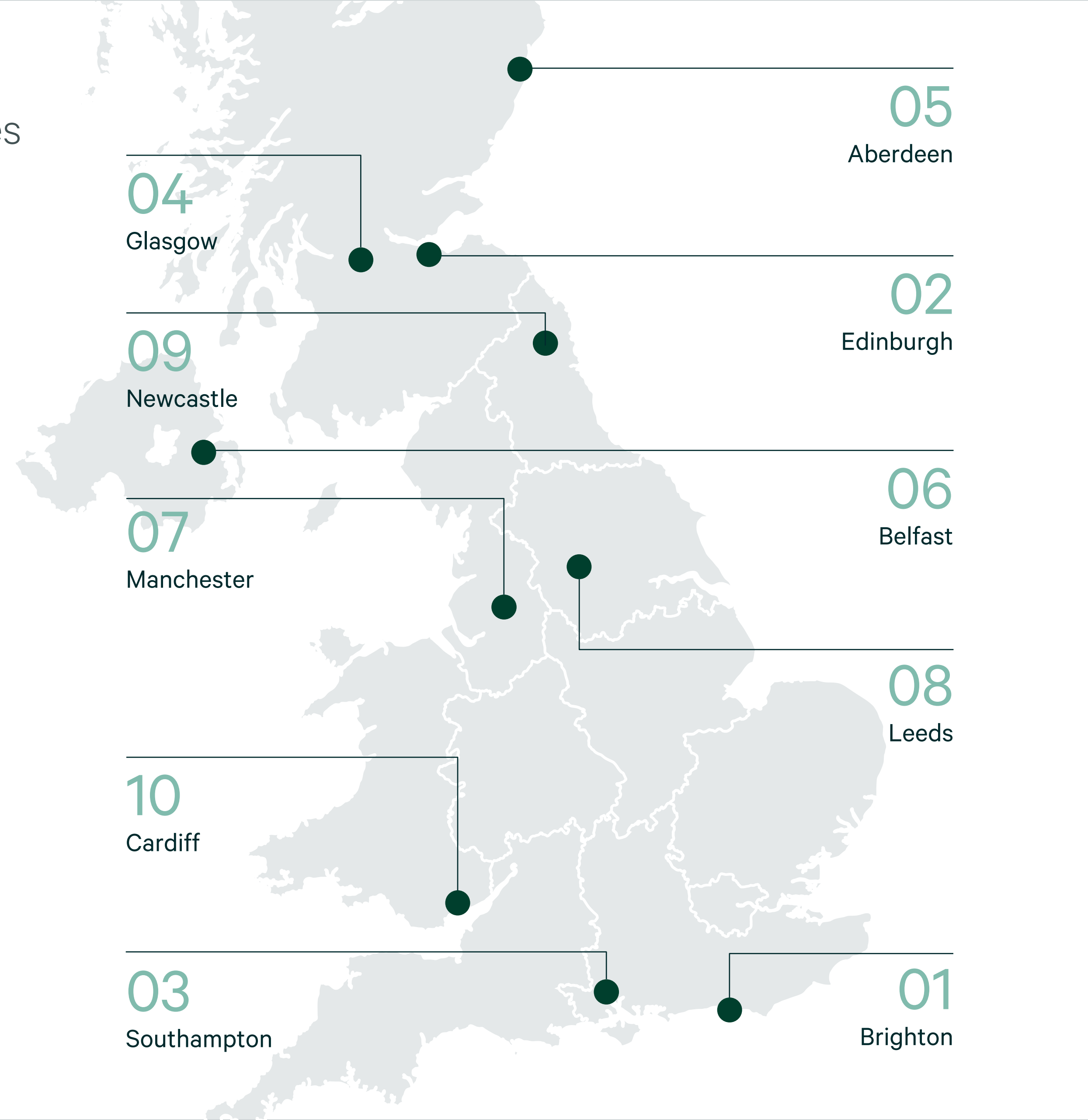
Hotels

Top 10 Growth Cities

Hotels



Return of overseas visitors spurring demand for hotels

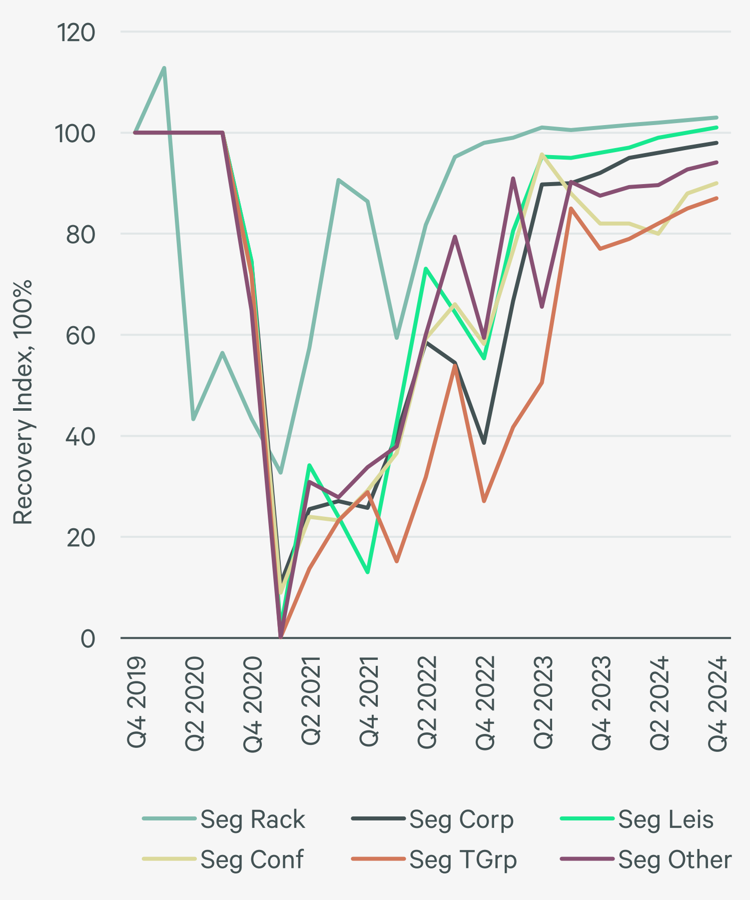
Performance across the UK's hotel market was going from strength to strength pre-pandemic. While the COVID-19 pandemic hit hotel occupancy levels, the return of international travel and the increase in staycations from a leisure and corporate perspective will help support the recovery of the sector.

Cities that are forecast to experience the greatest rise in demand typically have a range of hotels at different price points, from five-star luxury hotels suitable for weddings, to budget, limited-service brands suitable for travellers looking for basic facilities and services. A strong rebound in demand throughout 2022 has resulted in an uplift in average occupancy – reaching c77.2% by the end of the year, exceeding that of pre-pandemic 2019 levels. This will then pave way to a more protracted recovery as some customer segments, such as group stays, meetings and events and international corporate events, take longer to recover.

Notably, there has been a substantial supply response to the strong performance achieved pre-pandemic. Many of the hotel development projects already committed to are expected to be delivered in the coming years. Cities with strong delivery pipelines include Manchester (2,858 hotel rooms confirmed), Glasgow (2,142), Edinburgh (1,888), and Belfast (1,168).

In addition to the array of hotels available across our key cities, a key driver of demand for hotels will be connectivity to international airports and railway stations. All cities in our top 10 are connected via regional rail, and nine out of the top 10 have an international airport within an hour of the city; the ease of rail and air connectivity will help to facilitate tourism and generate growth in hotel demand.

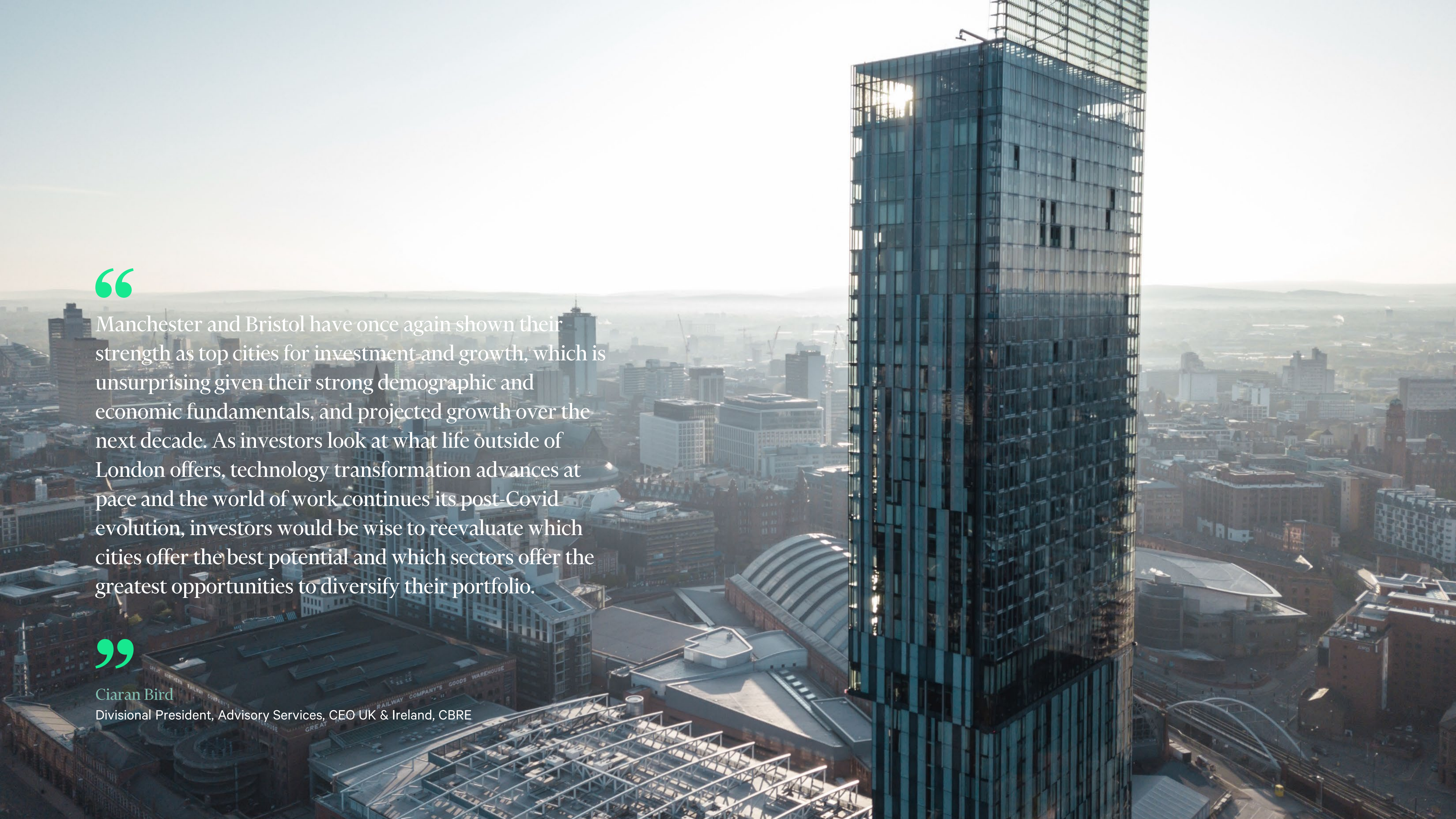
Figure 16: UK excl. London – Segment demand index



Source: HotStats & CBRE Research

UK hotels enjoyed a boost off the back of the staycation trend during the COVID-19 pandemic when international travel was restricted, and despite the return of international travel, staycations show no signs of abating. At a national level, domestic travel is forecast to increase 36% by 2030 with Brighton, Southampton, and Glasgow forecast to record the biggest rise in domestic visitors.

Hotel occupancy levels are also experiencing an uplift from the return of international travel, and hotels in the capital cities of Edinburgh, Belfast, and Cardiff will benefit from the rise in transatlantic visitors and visitors from Asia Pacific. Overall, hotel operators in Glasgow and the Southampton/Portsmouth area are forecast to record the biggest increase in international visitors by 59% and 67% respectively by 2030. Visitor spend was also factored in to our analysis. Tourism spend across our survey area is forecast to increase 86% by 2030 with international visitor spend doubling across our top 10.



“Manchester and Bristol have once again shown their strength as top cities for investment and growth, which is unsurprising given their strong demographic and economic fundamentals, and projected growth over the next decade. As investors look at what life outside of London offers, technology transformation advances at pace and the world of work continues its post-Covid evolution, investors would be wise to reevaluate which cities offer the best potential and which sectors offer the greatest opportunities to diversify their portfolio.”

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