REPORT

RICS Property Investment Forum

January 2025

Contents

Introduction 3
RICS sentiment survey update 4
Life-sciences real-estate market 5
Life-sciences occupier trends to watch 6
Executive summary 8

Introduction

The RICS Property Investment Forum was set up in response to the global financial crisis and convenes up to four times a year. Its purpose is to inform RICS on the key areas in which the property investment profession seeks the organisation's leadership and support in adapting to the challenges and opportunities ahead, to sustain a liquid, transparent and efficient market in the UK.

Input to these debates is provided by a range of industry-leading speakers, including RICS' chief economist, industry researchers, valuers, advisers, local and global asset allocators, developers, occupiers and accounting advisers. The debate draws on the views of senior market participants such as capital providers – whether debt or equity, local or global, public or private markets – investors with risk appetites from core to opportunistic, investment advisers and occupiers.

The output of this forum regularly informs meetings with the government and the wider sector. It has effected change in the marketplace – such as the recommendation to RICS' Standards and Regulations Board for an independent valuation review, which the board supported, with this chaired by Peter Pereira Gray.

The January 2025 meeting focused on recent developments in the UK science and innovation real-estate market. The sector experienced a boom in investment from 2020 to 2022 and, despite a subsequent slowdown, it remains one of the UK's most important real-estate sectors, providing significant opportunities for investors.

A lot of detail was reviewed and debated in the forum discussion. This publication summarises the outputs of the meeting.

Phil Clark, chair

RICS sentiment survey update

Starting with the macro picture, even if the recent rise in yields is a global issue rather than UK-specific, it does have some fiscal implications. At this point, it is far from clear that all £9.9bn of headroom against the chancellor's rule requiring day-to-day spending to be met from revenues will be wiped out. The rule has to be met in 2029/30, and from 2026/27 the current budget will be defined as being in surplus or deficit within a margin of 0.5% of GDP.

It is questionable whether it is desirable for tax and spending policy to be calibrated in response to 'run-of-the-mill changes in an uncertain forecast', according to the Institute for Fiscal Studies.

Arguably, chancellor Rachel Reeves could have avoided some of the current uncertainty by providing a buffer in the fiscal numbers. Some comfort has been offered by the February base-rate cut, but concerns around the inflation outlook could crimp the scope for the Bank of England to take further action in the near term.

The key issue for the UK economy remains weak growth. Respondents have completed the RICS Global Commercial Property Monitor against this uncertain backdrop, so it is unsurprising that the 700 or more respondents have expressed a little more caution. But at this point, demand indicators are little changed on Q3 numbers for 2024, although there has been a decline in the share of contributors perceiving the market to be in an upturn phase of the cycle.

Looking ahead, the 12-month expectation results from the survey continue to present a mixed picture at a sector level; data centres are seen as likely to provide the strongest returns, with multi-family, aged care and life sciences also projected to record firm gains. However, the polarisation between best in class and the rest continues to be a feature of the results.

Finally, in terms of the housing market, the RICS UK Residential Market Survey shows that there is resilience in this sector for now.

Simon Rubinsohn, chief economist, RICS

Life-sciences real-estate market

- The UK science and innovation real-estate sector experienced something of a gold rush between 2020 and H1 of 2022, accelerated by COVID-19 and the low-rate environment.
- Global capital with experience investing in the US moved into the UK market, seeking opportunities in this sector due to its relative infancy.
- The market became very competitive, with pre-planning, speculative development land pricing as low as 10% or 12% on a levered, internal rate of return basis. However, normalised but volatile base rates have since punished development appraisals across all asset classes, life sciences included.
- During 2020 and 2022, there was competitive underwriting of rents and growth rates by market participants at between 5% and 10% a year for perpetuity. Investors got ahead of themselves to win deals.
- As base rates widened financing costs moved out, and underwritten exit yields have shifted to between 5% and 6% from 4% to 4.5%. The market was further weakened by negative sentiment stemming from a challenged US market struggling with oversupply – something that did not occur in the UK.
- Despite significant headwinds, there has been limited distress in the UK science and innovation sector, and its fundamentals remain quite good overall. The occupier market is quickly rebounding, so there are reasons to be optimistic.
- There will be corrections with question marks around the rates environment but, across the board, capital is coming to grips with a normal-for-longer environment, rather than debating when rates are going to be meaningfully cut.
- The UK market is expected to pick up but not to return to the gold rush of 2020–22. There were lots of ‘tourists’ in the market during this period, most of whom have since turned their interest elsewhere. Instead, there will be fewer investors and operators in the sector, with a greater focus on the best in class and looking for ideal locations and best-performing asset classes.
- All real-estate sectors are entering a period of structured deals. The overarching themes in the UK science and innovation sector are collaboration and partnerships between the public and private sectors as well as those between investors and developers.

- There is strong market competition, and notable lender appetite and understanding. The lender market was new to this sector and learned the same lessons as the equity market did; however, several lenders remain interested and credit is available. There is sufficient debt liquidity for viable schemes that is appropriately priced in terms of debt provision.
- From 2020 to 2023, investors in the science and innovation sector focused primarily on 'beds, sheds and meds'. Due to the insatiable demand for data centres at present, one question is whether these will replace meds in the equation or be added to the other three.
- Science and innovation real estate has an important place in the UK and European property markets, but investment opportunities will be right-sized and concentrated in top locations. This is where capital at a global level will be most interested in the sector.

Life-sciences occupier trends to watch

- The convergence of science and technology in the UK market is set to continue this year. Moreover, the UK science and innovation sector has a major role to play in terms of driving growth in GDP, and there is increased confidence in venture capital funding into 2025.
- Some of the exuberant investments made in 2020, when investors and developers were buying business parks with no ecosystem to drive long-term sustainable demand, are being revealed to have been risky. Instead, investments in established life-sciences and innovation locations will continue to thrive through the link between industry, teaching and academia, which is the secret of their success.
- Ecosystem resilience is expected to reshape lab real estate. Those life-sciences ecosystems with strong, established academic research links and commercialisation leading to investment will benefit greatly from this consolidation.
- The UK science and innovation market has a strong foundation in terms of world-leading academic institutions and research, along with the commercialisation of that research. Around 75% of venture capital funding in the science and innovation sector is raised in the so-called golden triangle of Cambridge, London and Oxford, leading to the UK's highest concentration of life-sciences companies.
- However, the UK cannot rest on its laurels. The science and innovation sector is competitive and the UK is competing for talent, capital and funding; more venture capital in science and innovation has been raised in France than the UK over the past two years, for instance. Furthermore, Brexit and the health surcharge for non-citizens have made attracting global

talent to the UK more challenging. Science and innovation clusters should aim to be the best in their field in the world, which could help attract talent and investment.

- There is a lot of rhetoric about the UK being a global scientific superpower. Many in the industry would like to see such statements translated into definable government action. For example, transport and infrastructure are vital to the sector's success and much greater amenity is required in science parks and campuses in terms of housing affordability and recruiting and retaining talent.
- During the COVID-19 pandemic there was a significant rise in venture capital funding in the UK life-sciences sector, but a subsequent drop-off from 2022. However, the sector is currently seeing a recovery, with such funding at its highest across the UK since the peak in 2021 when it was around £6bn. This demonstrates an increased interest by private investors in the UK life-sciences sector, which is projected to continue throughout this year.
- The science and innovation sector needs to reflect on the increasing cost of capital debt and weakening of the UK currency relative to others. This is particularly relevant because the US is such a significant player in this market.
- Demand in the science and innovation sector is driven by the pipeline of talent emerging from the university sector, which is slow-growing and poses some risks to investors. To meet this demand and create a vibrant ecosystem, more established businesses need to be attracted into the market, including technology firms and other innovators.
- Real estate is the enabler and the connection between academics, universities and the local community. The commercialisation of research feeds back into supporting other forms of innovation so everyone can benefit. Real-estate professionals working in the science and innovation sector need to identify where potential demand could come from and assess their role in the global market.
- The outlook for the science and innovation sector is optimistic, albeit with a healthy dose of scepticism. There are significant opportunities for the real-estate sector, but these are not broad-brush opportunities. Understanding is needed of the talent pipeline, sector specialisms and where value is going to be added.

Executive summary

- The UK science and innovation sector is at an inflection point in terms of what will happen next, not least in terms of consolidation among investors.
- The market looks set to pick up, though it will not return to the gold-rush period of 2020–22.
- Overall, there is an optimistic outlook for science and innovation, which is one of the top three real-estate sectors in the UK.
- Both the UK government and the sector itself will need to be flexible about how the sector is structured and financed.
- While there may be tough times for the science and innovation sector in the short term, it presents excellent long-term investment opportunities, albeit largely in locations with conditions conducive to success, such as leading research institutions.

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