

UK Commercial Market in Minutes

Investment volumes keep rising

January 2015

Volumes head towards 2006 levels

■ As investor appetite showed no sign of abating in the run up to Christmas it comes as no surprise that total UK investment volumes for 2014 rose by almost 9% to reach £59.3bn. In terms of total volumes this is the second highest year in history, falling narrowly short of the 2006 total of £61.6bn.

■ In many respects the total investment volume for 2014 shows the strength of the current market which is being driven by a volume of deals as opposed to high value single transactions that characterised the market at the end of 2013, such as the acquisitions of Broadgate and More London for a combined £3.4bn.

■ As the amount of capital deployed has increased, investors have begun to look at a variety of sectors and geographies for value. For instance, £4.2bn has been transacted in the logistics sector, an increase of 54%

year-on-year and the highest amount invested on record.

■ The year-end saw very little yield movement with only High Street Retail moving in by 25bps to reach 4.25%. As a result the UK average prime yield moved in further and now stands at 4.64%, the lowest level recorded since July 2007.

■ Into 2015 we believe the commercial investment markets will still offer opportunities for both risk-averse and risk-embracing investors, though the stronger than expected bounce in capital values in 2014 will diminish. We expect that in 2015 rental growth in certain markets will make up a greater element of returns with strong growth forecast in the undersupplied regional office and industrial markets.

■ Whilst we see some downside risk to the UK market such as global geopolitical instability we believe the impact of the General Election could be overstated for reasons we explore overleaf.

TABLE 1 Prime equivalent yields

	Dec 13	Nov 14	Dec 14
West End Offices	3.25%	3.25%	3.25%
City Offices	4.75%	4.25%	4.25%
Offices M25	5.75%	5.00%	5.00%
Provincial Offices	5.75%	5.25%↓	5.25%↓
High Street Retail	4.50%	4.50%↓	4.25%
Shopping Centres	5.00%	4.50%	4.50%
Retail Warehouse (open A1)	4.75%	4.25%↑	4.25%↑
Retail Warehouse (restricted)	5.50%	5.25%↑	5.25%↑
Foodstores	4.25%	4.75%↑	4.75%↑
Industrial Distribution	5.75%	4.75%	4.75%
Industrial Multi-lets	5.75%	5.00%	5.00%
Leisure Parks	6.00%	5.25%	5.25%
Regional Hotels	6.75%	6.00%	6.00%

Source: Savills Research

GRAPH 1 UK Investment Volumes



Source: Savills Research / Property Data

→ **Do General Elections impact the investment market?**

■ Many industry commentators have suggested the UK General Election, set for 7th May 2015, as a potential risk for the investment market as investors could use the election as a reason to delay investment decisions, with volumes suffering as a result.

■ With the 2015 election forecast to be the “closest since 1945” Savills have examined data for investment volumes and prime yields for the last four election years. This analysis has highlighted some points for discussion.

■ Starting in 1997 when the investment market was already performing well, the election month of May saw a 41% rise in the number of investment deals which was also way above the average volume of deals for a typical May which stands at 225. Interestingly however market sentiment did change around the election with the Savills prime yield moving out by five basis points before continuing its downward trajectory for the year ending at 5.73%.

■ The 2001 and 2005 elections saw the markets largely remain in tandem with the prevailing market conditions as investment volumes in 2001 remained close to their long-term averages. On the other hand 2005 saw a post election drop off in deals which soon recovered to see deal volumes outstripping the long term monthly averages. In both cases the Savills prime yield remained in line with market sentiment with no blips around the election months.

■ As the recovery started to take hold in 2010 the investment market reacted accordingly with a sharp upswing in total investment volumes with the election month of May actually seeing a rise in the total amount of deals on a national basis. However the change of government and subsequent uncertainty regarding the formation of the Conservative/Liberal Democrat coalition saw the Savills Prime yield move out by 10 basis points before returning to pre-election levels later in the year.

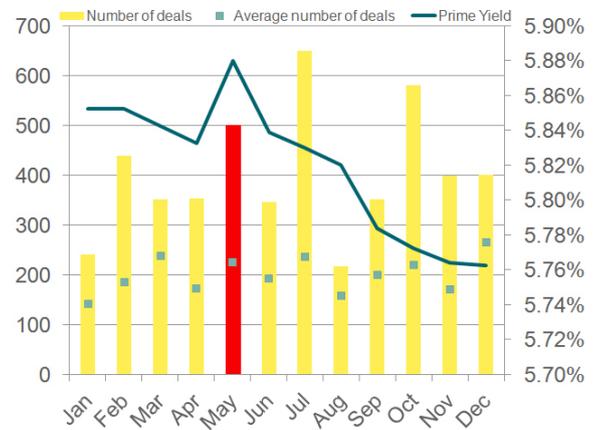
Start watching the polls

■ What the data suggests is that a predicted change in Government has a short-term impact on market sentiment but that actual investment volumes are more closely related to the prevailing market conditions at the point in time.

■ In both January 2001 and 2005 Labour held a substantial polling lead over the Conservatives which the markets took into account which reduced volatility in both investment volumes and yields. However, in January 2010, five months before the last election the conservatives had opened up a 10% lead in the opinion polls resulting in volatility around the election.

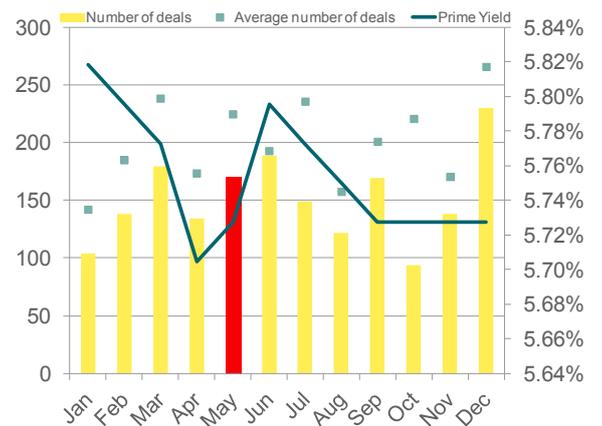
■ A recent poll by Opinium, shows Labour with a 1% lead over the Conservatives with many suggesting another coalition Government is likely. As the electorate gets more comfortable with this it may result in the market taking this into account too and therefore the impact of the election on the Investment market will be negligible, as seen in 2001 and 2005.

GRAPH 2 **1997 National Investment market**



Source: Savills Research, Property Archive

GRAPH 3 **2010 National Investment Market**



Source: Savills Research, Property Data

Please contact us for further information



Mark Ridley
 Chief Executive Officer UK & Europe
 +44 (0)20 7409 8030
 mridley@savills.com



Kevin Mofid
 Research
 +44 (0)20 3618 3612
 kmofid@savills.com

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.