MARKET IN MINUTES
Savills Research

Market in Minutes

savills

Recovery to “normal” levels of activity continues

The All Property Prime Yield was broadly stable this month at 5.20%, though there were one or two notable changes at a sector level.

Open A1 consented retail warehouse yields continued the gentle downward trend that has been seen over the last six months, and the prime yield in that segment is now 75 basis points lower than it was in September 2020. Yield hardening also continued in the segment that many investors consider to be the polar opposite of retail, and the prime multi-let industrial yield is now the same as the West End office yield at 3.50%. This is now a full 100bps lower than its level prior to the current crisis.

Similar trends prevail in terms of investor activity, with industrial investment volumes to the end of April 2021 being 110% up year-on-year, and retail warehousing activity up 87%. All other segments remain down year-on-year, with the exception of unit shops which have been buoyed up by sales of long-leased assets such as banking halls and foodstores.

Offices and leisure remain the quietest part of the market, with office transactional volumes subdued in particular in central London. However, there are definitely signs of a recovery in both of these sectors.

Savills Prime Yields

	April 2020	March 2021	April 2021
West End Offices	3.75%	3.50%	3.50%
City Offices	4.00%↓	4.00%	4.00%
Offices South East	5.00%	5.50%↑	5.50%↑
Provincial Offices	4.75%	5.00%	5.00%
High Street Retail	5.50%↑	6.75%	6.75%
Shopping centres	6.00↑	7.50%	7.50%↑
Retail Warehouse (open A1)	6.25%	6.50%↓	6.00%
Retail Warehouse (restricted)	6.50%	6.25%	6.25%
Foodstores (OMR)	4.75%	4.50%↓	4.50%↓
Ind/ Distribution (OMR)	4.25%	3.75%↓	3.75%↓
Industrial Multi-lets	4.00%	3.75%↓	3.50%
Leisure Parks	6.00%	7.50%	7.50%
London Leased (core) Hotels	3.75%↑	3.75%	3.75%
Regional Pubs (RPI)	4,50%↑	5.25%	5.25%

Source Savills

Key Stats

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Sectors expected to see upward pressure on yields in the next few months

-22%
The year on year change in investment volumes for January to April

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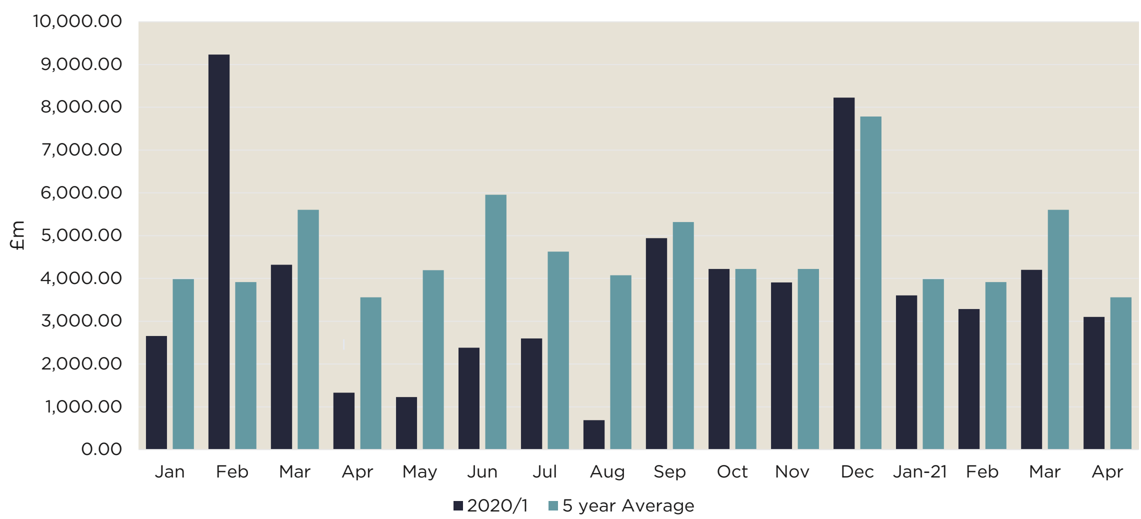
Sectors expected to see downward pressure on yields in the next few months

Investment activity: Monthly investment volumes this year are showing a steady recovery to within 10% of normal levels



Source Savills from PropertyData

Return to normality happening faster than in 2020

GDP growth surprised on the upside in March, rising 2.1% month-on-month and pointing to a broad-based pickup in activity. The re-opening of school was an important factor in this rise, as was the continued steady recovery in retail sales.

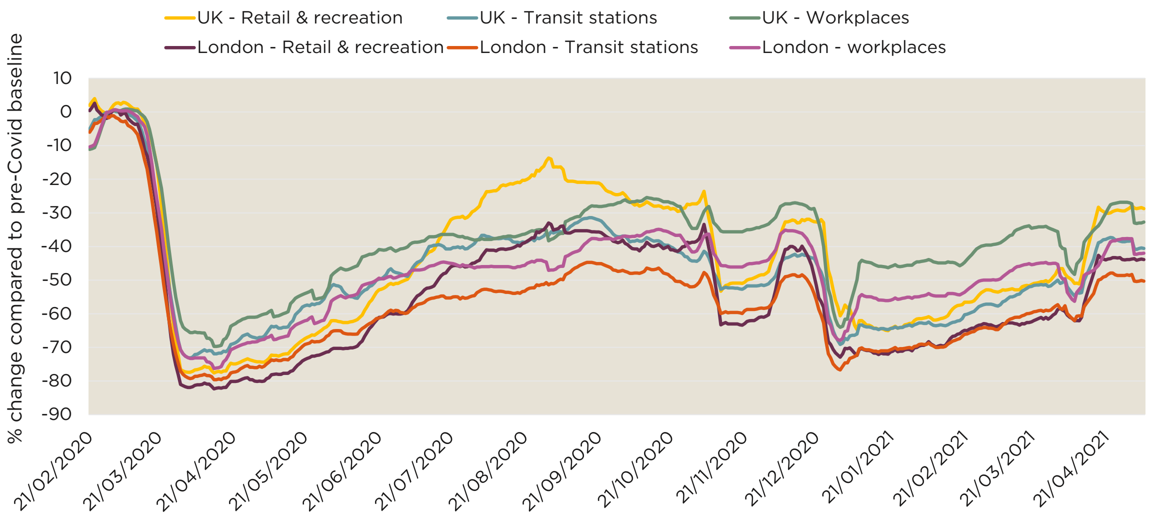
April's GDP is expected to continue this trend, following the relaxation of restrictions that took place last month. What is already apparent in the higher frequency data on consumer spending and mobility, is that the pace of this post lockdown recovery is dramatically faster than the emergence from Lockdown 1. Footfall levels across the UK's retail destinations reached its highest level since before the crisis in the last week of April, and in the same week footfall on retail warehouse parks was actually higher than normal.

The chart below shows Google Mobility data on the return to retail & recreation, mass transit and workplaces. This points to a similarly fast spike in people's willingness to leave home, with most measure reaching the same level in two weeks this year that took nearly two months in 2020. While central London remains the laggard in terms of the level that it has reached in relation to normality, the pace of recovery has been similarly strong.

Given that the two major questions that were holding some property investors back over the last 12 months were around consumer behaviour and the return to work, we believe that this data suggests that a return to normal levels of occupancy of our retail locations and workplaces could come significantly sooner than many were expecting at the start of this year.

If we are right on this, then we expect that investor confidence in retail and offices will also improve in the second half of 2021, and this will be enough to bring overall levels of commercial property investment completely back to normal by the end of this year.

Google Mobility data shows a much faster recovery in activity than after the first lockdown



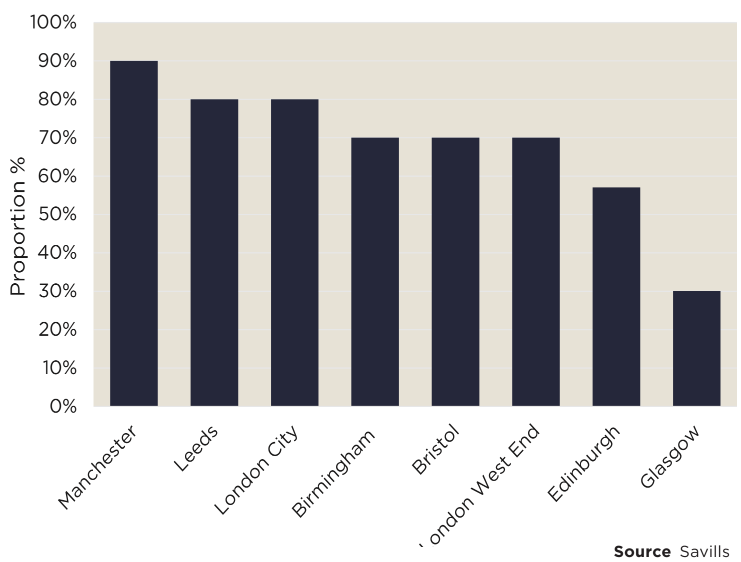
Source Savills from Google Mobility

This year one of the most asked questions by office developers has been 'will tenants pay more for a green building?. This is a very hard question to answer, as for many years most new office buildings have been designed to achieve a high BREEAM rating. This means that there are virtually no new buildings that aren't 'green' to act as test of the premise that a premium is achievable.

What is clear from some of that data that was presented in our latest Spotlight on Property and Carbon report, is that if you wish to achieve a top rent in most UK office locations, then a high BREEAM rating is increasingly essential. This chart shows the proportion of the top ten rents paid in the last two years in key CBD office markets that had a BREEAM rating of 'very good' or above.

We have no doubt that this trend will continue in the future and will be examining energy in use data in future reports.

Green Premium? Higher BREEAM rated offices achieve higher rents



Source Savills

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