More sectors to move out?

In line with the Brexit impasse there was no real change to prime yields in September with all sectors holding. The only change was in the number of sectors expecting to see yields move out, which increased from two to four. M25 and provincial offices joined high street retail and shopping centres by adding an upwards arrow suggesting potential yield softening going forward. Obviously, cyclical trends and Brexit uncertainty is coming into play, but in the case of M25 offices increased supply in some parts of the market is also having a bearing.

Weakness in pricing is also being driven by reduced transaction levels. All UK year to date volumes (as of Q3) are down 26.5% on the same period last year. For international investors, who have historically been the most prolific over the last three years, their activity levels have dropped 23.7% over the same period. Yet, this is not universal across all source markets.

Transaction volumes by US and Middle Eastern buyers increased by 56.4% and 14.8% respectively, over the first nine months of 2019 compared to the same period in 2018. Similarly, we have seen increased activity by Malaysian investors, although total volumes by Asian buyers are down. Interestingly, the decline for Hong Kong investors has not been as pronounced (-14.1% yr/yr) spending £1.6bn to date and representing 60% of total Asian volumes.

While the UK may be experiencing political uncertainty, this has not dented its safe haven status to international buyers.
The MSCI benchmark suggests that UK retail rents have fallen 4.3% year-on-year as of September. Yet this is miles away from what is being reported anecdotally by agents and asset managers. The fact the MSCI benchmark is valuation based means it can lag market realities. So what is the reality? Well we have been looking at our deal analysis and based on this rents fell by an average of 21% over the same period. But, it’s a mixed bag with some schemes on a like-for-like basis actually reporting small gains. Please get in touch if you would like to learn more about this analysis.