

Market in Minutes



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.

Savills prime yields

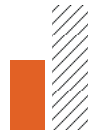
	Sep 18	Aug 19	Sep 19
West End Offices	3.25%	3.75%	3.75%
City Offices	4.00%	4.00%	4.00%
Offices M25	5.00%↑	5.00%	5.00%↑
Provincial Offices	4.75%	4.75%	4.75%↑
High Street Retail	4.50%↑	5.00%↑	5.00%↑
Shopping Centres	5.25%	5.50%↑	5.50%↑
Retail Warehouse (open A1)	5.50%↑	6.25%	6.25%
Retail Warehouse (restricted)	5.75%↑	6.50%	6.50%
Foodstores (OMR)	4.50%	4.75%	4.75%
Industrial Distribution (OMR)	4.25%	4.25%	4.25%
Industrial Multi-lets	4.00%	4.00%	4.00%
Leisure Parks	5.25%	5.75%	5.75%
Regional Hotels	4.25%	4.25%	4.25%

Source Savills

Key Stats



Increase in US investment volumes YTD vs same period in 2018.



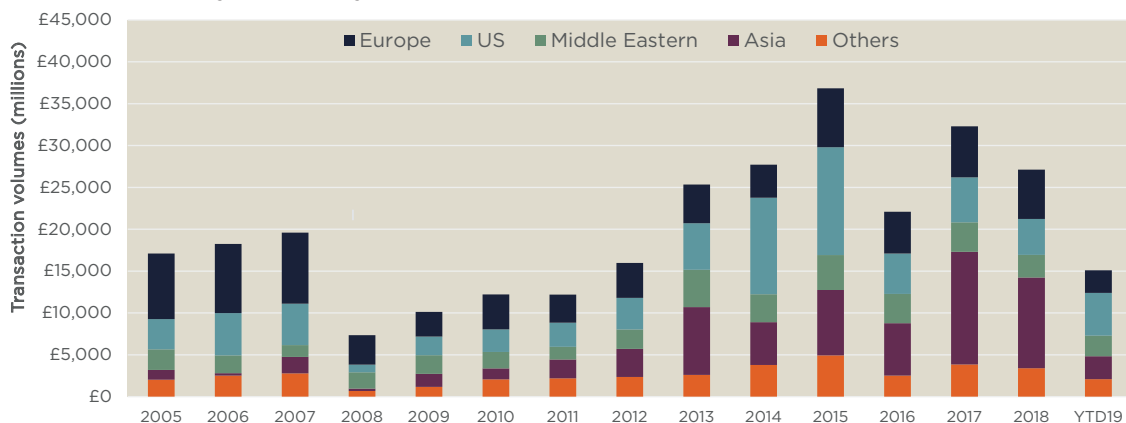
675,202 sq ft

Birmingham City Centre office take-up YTD, 44% up on the same period in 2018.

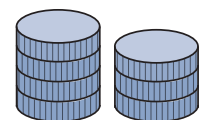


Average annual increase in recreation & leisure spend in London during the GFC.

International buyer activity US and Middle Eastern investors have increased volumes

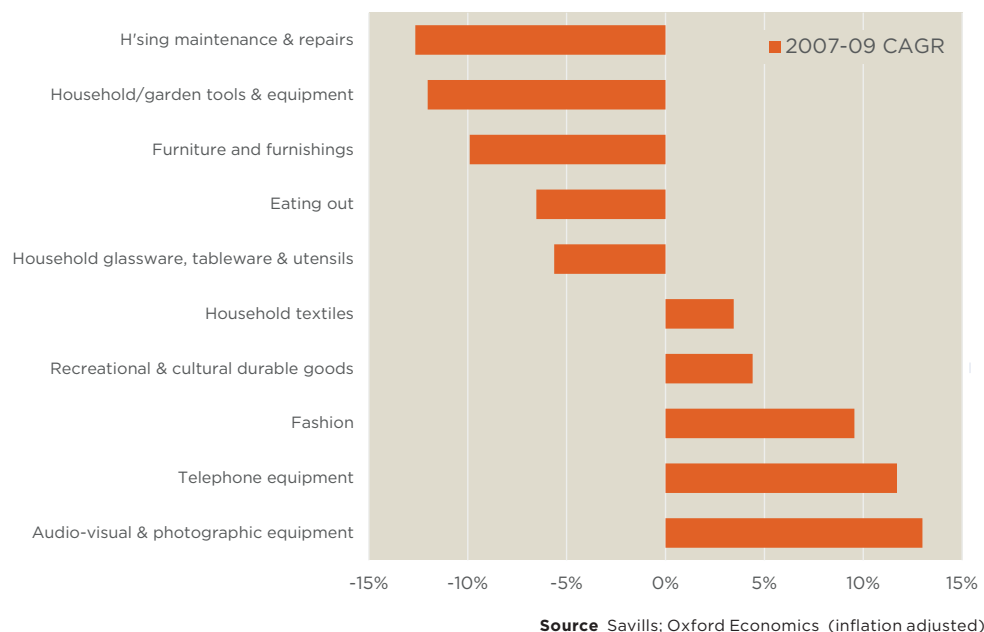


Source Savills Research



£33.2bn

Total, all sector, 2019 investment volume to end September, 27% down on same period in 2018.

Consumer spending top and bottom five performing segments during the GFC**WHAT DO PEOPLE CUT BACK ON DURING A DOWNTURN?**

UK GDP moved into negative territory in Q2 reporting a quarterly decline of -0.2% and while it looks like a second quarterly decline has been dodged, concerns continue that a no-deal Brexit, if it materialises, could push the UK into a technical recession. The question is then, what impact could this have on our retail and leisure spending?

One way to help answer this is to look at what happened to consumer spending during the GFC (global financial crisis). Between 2007 and 2009, total spend fell by an average of 1.6% per annum in real terms. Where we saw the greatest declines, however, were in housing related retail categories. Spend on housing maintenance and household & garden tools reported the strongest falls of 12.6% and 12.0% per annum, respectively. Eating out spend was the only non-household retail category to feature in the bottom five reporting an average decline of 6.5% per annum.

At the other end of the spectrum it looks like we were spending more on making our time at home more enjoyable with spend on audio-visual and photographic equipment up 13.0% per annum, outperforming the long term average (18 years) by over 300 bps. At the same time we also increased spend on our hobbies with leisure durable goods expenditure up 4.4% per annum. In contrast to bigger ticket household items, spend on smaller household items such as textiles increased 3.4% per annum.

The appearance of telephone equipment spend in the top five probably has more to do with Apple launching their first iPhone in 2007. Likewise the continued growth in fashion spend during the recession is more a reflection of that particular point in time as post the GFC fashion spend has been growing at a far slower rate of 3.4% per annum.

Yet, trends were not totally universal. In London, there was no change in what segments were in the bottom five albeit the level of decline was less pronounced. For example, spend on eating out fell 3.8% per annum, almost half that seen nationally. Likewise, for the more resilient spend categories the growth was more pronounced. The only major change was that spend on recreation & cultural activities, such as going to the cinema, grew 5.7% per annum placing it in the top five most resilient segments. In contrast spend fell 0.3% nationally.

Could we see the same trends in a potential future recession? While past trends can provide a pointer to the future, consumer preferences have changed since the GFC, particularly as millennials have become a much more important consumer group. Considering this group are more experience focused we may see more resilience when it comes to spend on eating out and on recreational and cultural activities. Having said that, big ticket purchases related to the home could face the same headwinds as before. What might be different this time for retailers in this space will be their ability to look to new income streams such as rental services to stave off potential challenges.

RETAIL RENT PERFORMANCE, THE REALITY

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.

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