

# Market in Minutes



## Yields up (and down)

The broad trend last month was mainly one of more of the same, with yields rising a quarter point across retail warehousing and leisure. This brings our average prime yield to 4.90%, its highest level since November 2016.

We expect this trend to continue for the remainder of this year, as while opportunistic investors are becoming increasingly active students of the UK retail market, transactional volumes remain at near-record lows as they wait to strike at the 'right price'.

The one exception to the trend of the last 12 months was in the City of London office market, where we have moved the prime yield down from 4.25% in June to 4.00% in July. This move has been supported by the sale of 8 Finsbury Circus to Singapore based Stamford Land for £260m, representing a net initial yield of 4%. The depth of interest and eventual price achieved on this asset indicates that there is a still a significant depth of demand for prime London assets, which may well be boosted in the second half of 2019 by the recent weakening of sterling.

This swing towards prime is echoed by the trends from the latest MSCI quarterly results, which show a widening performance gap across many sectors between the best and worst asset types and locations.

### Savills prime yields

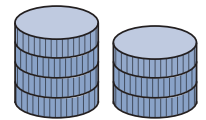
	July 2018	June 2019	July 2019
West End Office	3.25%	3.75%	3.75%
City Offices	4.00%	4.25%	4.00%
Offices M25	5.00%	5.00%	5.00%
Provincial Offices	4.75%	4.75%	4.75%
High Street Retail	4.25%	5.00% ↑	5.00% ↑
Shopping centres	5.00%	5.50% ↑	5.50% ↑
Retail Warehouse (open A1)	5.25%	6.00%	6.25%
Retail Warehouse (restricted)	5.50%	6.25%	6.50%
Foodstores (OMR)	4.50%	4.75%	4.75%
Ind/ Distribution (OMR)	4.25%	4.25%	4.25%
Industrial Multi-lets	4.00%	4.00%	4.00%
Leisure Parks	5.25%	5.50% ↑	5.75%
Regional Hotels	4.25% ↓	4.25% ↓	4.25%

Source Savills

### Key Stats

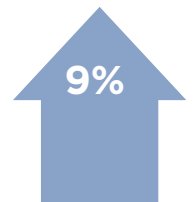


Average prime yield rises to its highest level since 2016



**£9.2bn**

The fall in UK commercial property investment volumes between 1H 2018 and 1H 2019

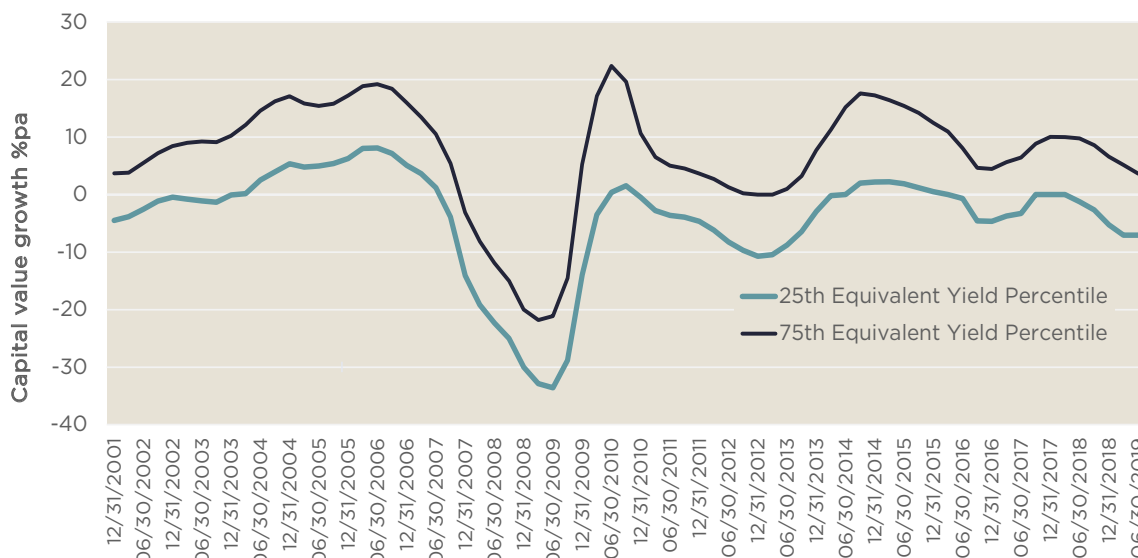


The rise in investment in high street shops in 1H 2019 compared to 1H 2018

**15**

The number of consecutive months of rises in the average prime commercial property yield in the UK

**The quality gap is significant** with the lowest yielding assets continuing to deliver positive capital value growth



Source MSCI

## Regional office occupational markets remain strong

While take-up in the London office market in the first half of 2019 was down year-on-year (30% in the City and 6% in the West End), the major regional cities have continued to show strong occupational demand against a background of increasingly tight supply.

Given that 2018 saw the best ever year of take-up in the top ten regional cities, it is impressive that this has continued into the first six months of 2019, with 3.2m sq ft of take-up (0.3% higher than the same period in 2018).

This strong tenant demand continues to be led by the TMT sector, which

accounted for 19% of all regional office take-up in the first half of 2019. However, serviced office providers have become increasingly acquisitive in the regional cities over the last six months, taking just over 700,000 sq ft of office space (17% of the 1H 2019 take-up).

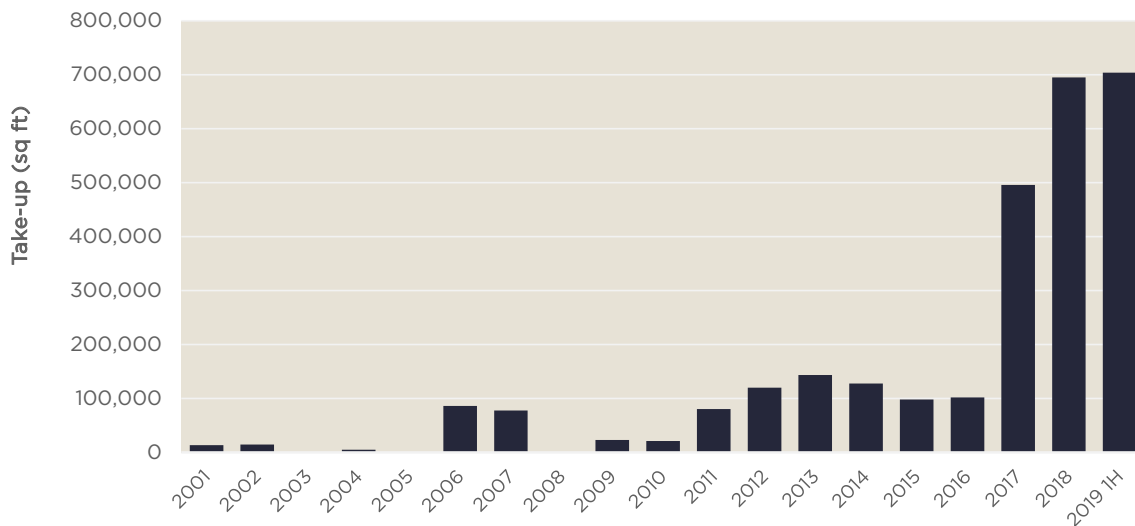
We expect this trend to continue in the second half of the year, and into 2020. This is a replication of the trend that has been seen in the central London office market over the last five years, where serviced office provider activity peaked at 18% of take-up in 2017.

The comparative lack of speculative

development activity that has taken place in the post-GFC period in the major regional cities has driven Grade A supply to record low levels in some cities. For example, in five of the top ten regional cities the Grade A availability is now less than one year's average take-up of prime office space.

This undersupply situation is putting firm upward pressure on prime office rents in many locations, with record-high office rents being achieved in Birmingham, Cambridge, Leeds, Manchester and Oxford.

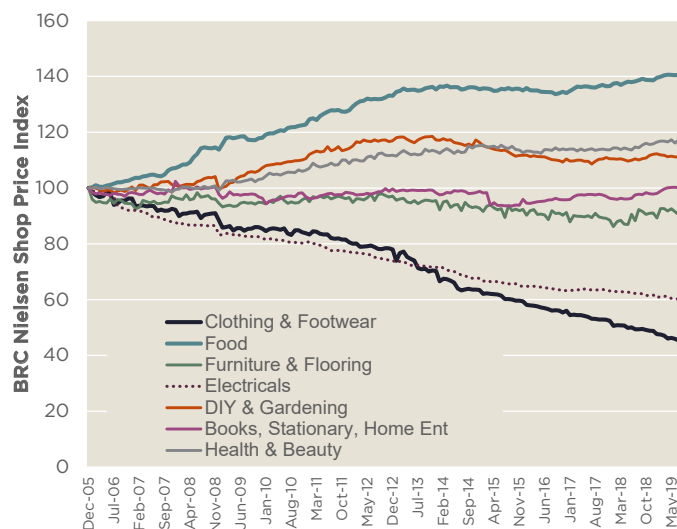
**Serviced office providers** have taken more space in the top regional cities in the first half of 2019 as they did in the whole of 2018



Source Savills

More has been written in the last few years about the troubles in the retail sector than any other segment of the property market. The focus of blame usually swings from the internet to business rates to greedy landlords, but one area that seldom gets attention is the shopper's insatiable demand for a bargain. The rise of fast fashion (a trend that seems at odds with the rise in interest in CSR), has led to huge price competition in the fashion space, which has been further intensified by competition from online retail. This trend is exemplified by the most recent BRC Nielsen shop price indices, which show that since December 2005 Clothing & Footwear prices have fallen by 55%. This, more than any other statistic, might explain why there has been such significant downward pressure on store portfolios and rents in recent years.

**We love a bargain** and some of retail property's malaise could be attributed to falling Clothing & Footwear prices



Source Refinitiv Datastream

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