UK Commercial – February 2020

Market in Minutes

savills

Boris blip?

While it is arguable whether any more economic or legislative stability has emerged from the December election result, investors in the UK clearly feel that the removal of political uncertainty is a good thing.

December 2019 saw a surge in investment activity and thus accounted for 20% of the entire year's volume. Interestingly 70% of the buyers of commercial property across the UK in December were non-domestic, indicating perhaps that the restraint of the rest of 2019 has diminished.

This trend was most significant in the West End of London office market, where December accounted for 30% of the entire year's investment volume, and this has led us to move the prime West End office yield down by 25bps. This means that our national average prime yield remains stable at 4.96%, despite further yield softening in retail.

Looking ahead to the remainder of 2020 the early indications are that December's surge might have been more of a blip rather than a bounce, as transactional activity in January 2020 was not as strong as January 2019. Core investors returning to the UK will be challenged this year by a lack of stock, so while volumes may not boom we do expect to see some selective yield hardening.

Savills prime yields

	Jan 2019	Dec 2019	Jan 2020
West End Office	3.50%	3.75%↓	3.50%
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	4.50%	5.25%↑	5.50%↑
Shopping centres	5.25%	5.75%↑	6.00%
Retail Warehouse (open A1)	6.00%	6.25%	6.25%
Retail Warehouse (restricted)	6.25%	6.50%	6.50%
Foodstores (OMR)	4.75%	4.75%	4.75%
Ind/ Distribution (OMR)	4.25%	4.25%	4.25%
Industrial Multi-lets	4.00%	4.00%	4.00%
Leisure Parks	5.50%	5.75%	5.75%
Regional Hotels	4.25%	4.25%	4.25%

Source Savills

Key Stats

4.96%

The UK average prime yield

£9.7bn

Investment volume in December 2019

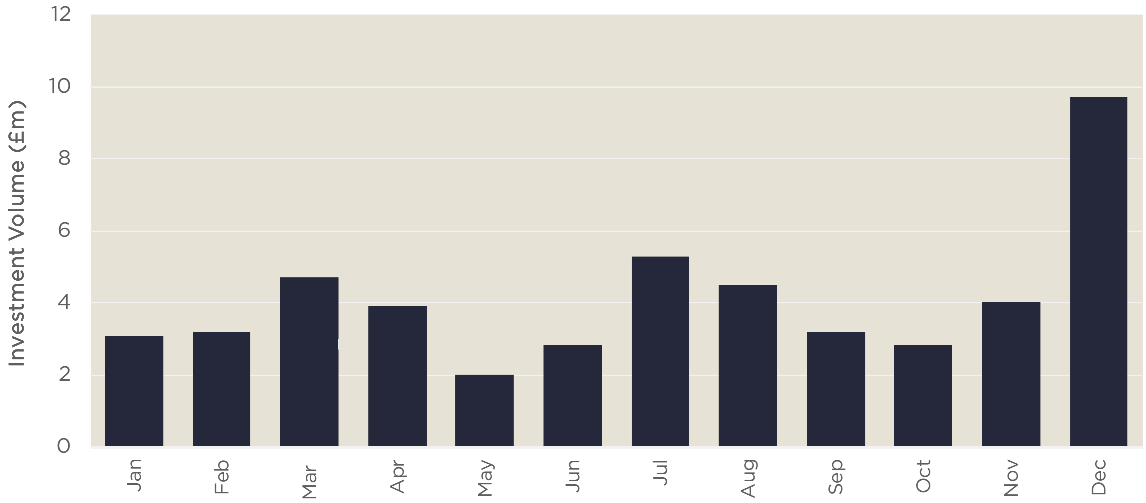
142%

Month on month rise in investment activity

+67

The change in the CBI business optimism survey between Q4 2019 and Q1 2020 (from -44 to +23)

National investment volumes December 2019 saw a surge in activity



Source PropertyData

Can't see the wood for the trees?

At January's AREF conference the overwhelming majority of attendees voted ESG as the number one issue that will affect property funds in 2020 (a welcome relief from Brexit perhaps). There is no doubt that investors, shareholders, staff and customers are becoming increasingly interested in making positive changes to the environment. However, the challenge for everyone is how to prioritise their attention on the impacts that the built environment has on the wider world.

Should we focus our attention more on behavioural change, construction practices, embodied carbon, waste or just mitigation is a question that will be rife in investor committees and boardrooms this year. Doing everything is probably not viable, but so is doing nothing.

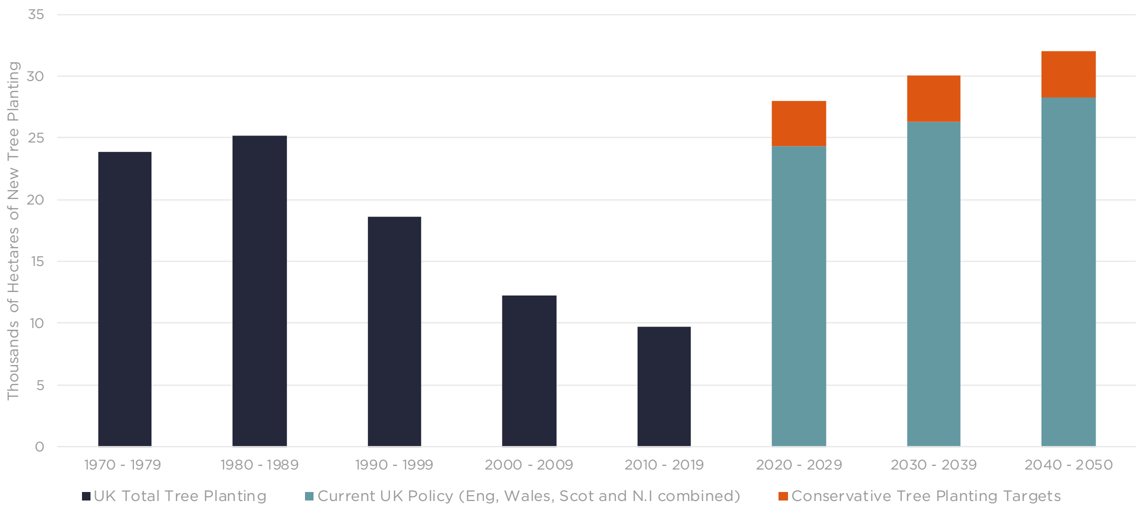
We suspect that initially there will be too much focus on mitigating environmental impact through schemes such as carbon offsetting via tree planting, rewilding or other initiatives.

The chart below is taken from our recent Spotlight on Natural Capital, and shows the sea change in tree planting that will be required just to satisfy the Conservative party's manifesto pledge. 30,000 new hectares per annum of forestry up to 2025 is equivalent to 75,000 football pitches and would require a tripling of the current planting rate.

While this represents a huge opportunity for rural landowners, commercial property investors and developers who are counting on finding an ever-expanding pool of opportunities in which to offset their carbon creation may well be challenged by supply not matching demand. This almost inevitably means that prices will rise.

As offsetting become more expensive then the attention will quite rightly turn back to how we build, where we build, and most importantly for the commercial property sector how we run our buildings in a more sustainable fashion.

13% of the UK is currently wooded and this is set to rise dramatically



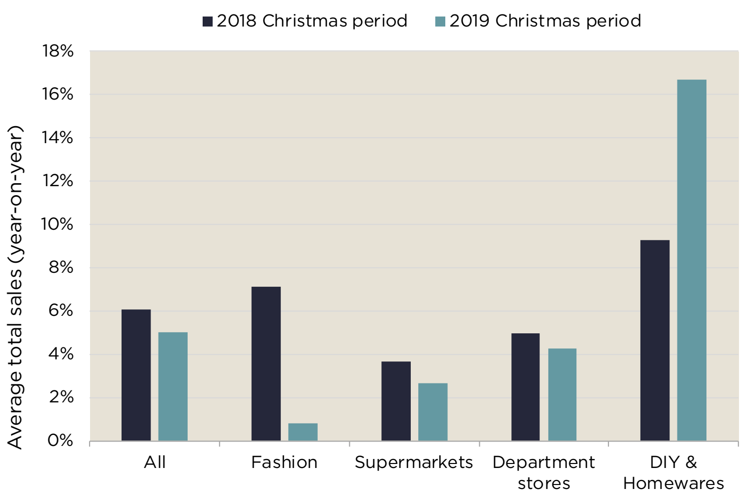
Source Savills Spotlight on Natural Capital

There was a sense of inevitability around last year's predictions in the press that Christmas trading would be the worst since records began. Indeed, it has almost become traditional to extrapolate a quiet October into a weak December, while ignoring the possible factor that people might be saving a little to spend more.

Of course Christmas 2019 was a bit different, with an election for the first time since 1923. What was not different was the fact that some retailers did well, and others did not.

Our analysis of the trading statements of 31 retailers who have reported on Christmas trading shows that on average total sales were up 5.0%, with half of retailers reporting a better uplift this Christmas than last. Internet sales did perform better, but overall the story was best for DIY & Homewares and worst for Fashion.

Not the worst Christmas for UK retailers (again)



Source Savills

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