MARKET IN MINUTES
Savills Research

Market in Minutes

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No change in November

For the fourth month in a row, the average yield measures for the UK have remained static. The trend arrows also stayed the same following a couple of sectors seeing upwards trends in the October version of this report.

As well as the "wait and see" from Brexit, the General Election adds to the mix ensuring that pricing expectations have levelled and on pause.

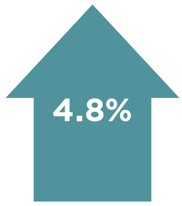
Government bonds started 2019 strongly and the second quarter saw a flight to 'havens' spurred by rising risks in the global economy. As shown in the chart below, the net sales for fixed income have been strong recently. Property flows within investment funds have fluctuated, but not at the scale of net sales shifts seen in both the equity and fixed income markets. The last four quarters have seen net sales of -£1.1 billion in property. In the direct market, the UK volume has reached around £38 billion, as we approach the end of November. This is currently 15% below the long-run average (yr-on-yr), so the expectation is for 2019 to be slightly below average at around £42 billion and 7% below the long-run average. Activity relating to quoted property companies look like they will account for their largest percentage share of the total volume since 2011. Overseas investors have accounted for a 44% share in 2019, which is the same as 2018. Their interest in the UK continues and a strengthening of Sterling against the Dollar from Q2 2020, expecting a 5% annual appreciation, will increase property's attractiveness in the short-term.

Savills prime yields

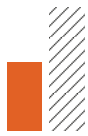
	Oct 18	Sep 19	Oct 19
West End Offices	3.25%	3.75%	3.75%
City Offices	4.00%	4.00%	4.00%
Offices M25	5.00%↑	5.00%↑	5.00%↑
Provincial Offices	4.75%	4.75%↑	4.75%↑
High Street Retail	4.50%↑	5.00%↑	5.00%↑
Shopping Centres	5.25%	5.50%↑	5.50%↑
Retail Warehouse (open A1)	5.50%↑	6.25%	6.25%
Retail Warehouse (restricted)	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

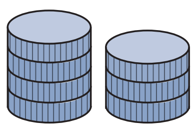


Forecast of £ Sterling appreciation against US$ in 2020.



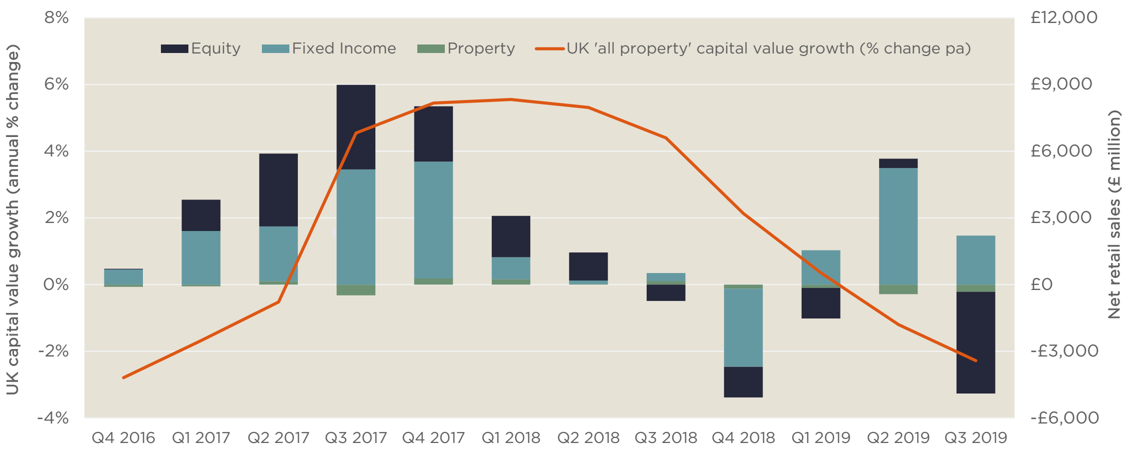
£42 billion
Current estimate for UK commercial property investment volumes for all sectors in 2019.

Highest sub-sector annual total return for 2019 from MSCI (Standard Industrials in London).



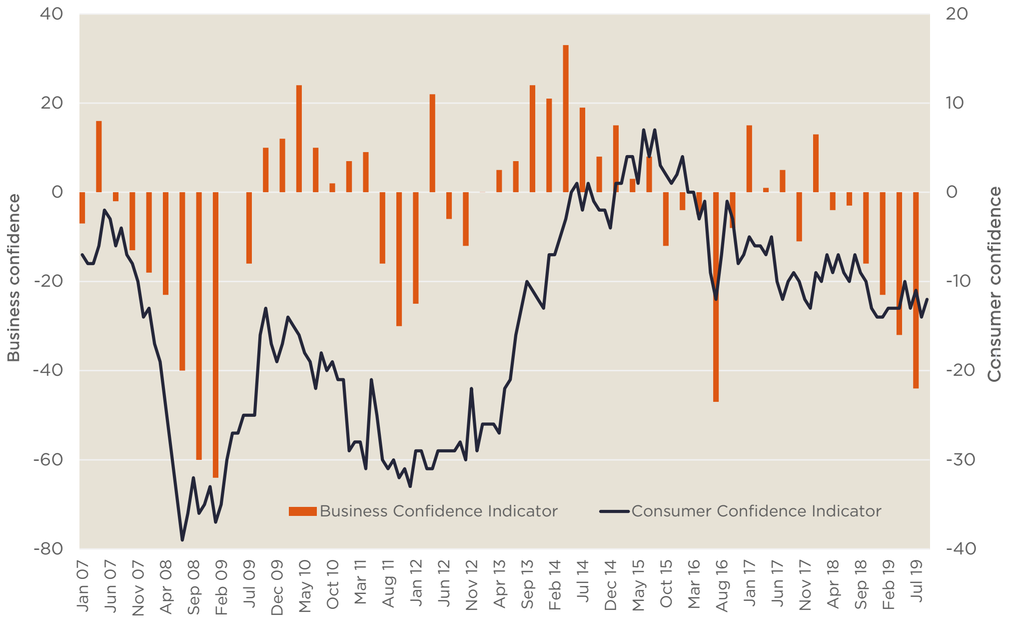
-£1.1bn
Net cumulative retail sales for property within UK funds in the last four quarters.

Net retail sales still negative for property reflective of UK 'all property' capital growth showing negative growth year-on-year for the last couple of quarters



Source The Investment Association, MSCI

Confidence levels understandably lower UK business confidence has reduced in recent quarters; consumers' negativity has levelled out



Source GfK, CBI

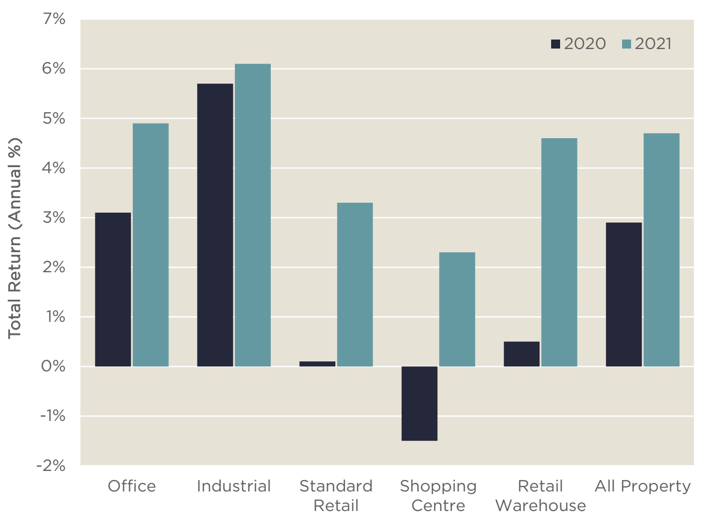
SENTIMENT REMAINS LOW, BUT IMPROVEMENTS ARE ON THE HORIZON

With an imminent General Election, which usually creates a degree of uncertainty, on top of the Brexit issues consuming economic and political debate, it is no surprise to see sentiment at relatively low levels.

Depending upon how all of this plays out, with an assumption of Brexit happening at the end of January 2020, it will still weigh on business, in particular, as the process of negotiation of the future trading environment begins. Current business sentiment, measured by the Confederation of British Industry (CBI) is lower than the early part of 2008, just prior to the Lehman Brothers collapse. An alternative measure, by IHS Markit, also shows a weaker reading driven by higher uncertainty having a dragging effect on the economy.

However, the level for the next couple of quarters will be more positive as uncertainty levels improve and corporate sentiment returns, which will improve corporate activity in terms of acquisition of floorspace to accommodate future growth. Improving sentiment overall will have positive implications for employment growth and, subsequently, wage growth and will feed through to improved consumer sentiment. At present, considering the importance of consumers to UK GDP, the measures from GfK are showing low confidence, which will continue to weigh on retail property performance in the short-term. More positively, despite an expectation that consumer confidence will level out, but remain net negative, the growth forecasts for retail sales and disposable incomes are expected to rise in 2020 and 2021.

Mixed performance for 2020 More positive in 2021



Source Investment Property Forum

The UK will potentially have a new Prime Minister for Christmas. It was only July when we last reviewed the total return prospects for the UK, within a context of a new political leader. The chart presents the latest forecasts (Sep 2019) from the Investment Property Forum for 2020 and 2021. The UK is predicting in to a couple of years of single-digit total returns. The latest UK total returns, from MSCI, for 'all property' (end-October) is showing 2.5% growth over the previous 12 months. Of course, going forward, there will be pockets of out-performance across various UK sectors and regions. The MSCI end-October data shows 9.8% for Standard Industrials in London compared to -15.3% for Department/Variety Stores. The question is when investors become more attracted to the latter for the repurposing opportunity it could provide.

Savills team

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