MARKET IN MINUTES
Savills Research

Market in Minutes

Prime yields remain static

With many people taking the opportunity to enjoy a holiday or some downtime in August after the intensity of the last six months, it comes as little surprise to report that PropertyData recorded just 89 transactions in August, down from 232 transactions when compared with August 2019. Given the lack of market evidence, the Savills average prime yield remained static at 5.23%, maintaining the highest level since September 2013.

Total investment volumes for the year have now reached £23.1bn, meaning that capital deployed would have to almost double to even reach the long-term average volume of £44.9bn, a scenario which seems unlikely given current uncertainties surrounding many occupational markets.

Looking at the markets by sector shows that the only segment to see an actual rise in annual investment volumes from January to the end of August is the alternatives sector, driven in the most part by the purchase of the iQ Student accommodation portfolio for £4.7bn by Blackstone who was advised by Savills.

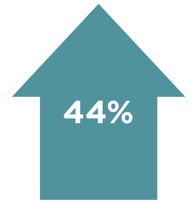
Looking at the other main commercial sectors shows that, as a proportion of the entire market, only the industrial sector is currently above its long-term average of 11% of the market and now stands at 13% of the investment market. With the news that the RICS will remove all remaining material uncertainty clauses in September and the potential reopening of gated funds it is therefore likely that investment volumes will slowly start to rise.

Savills prime yields

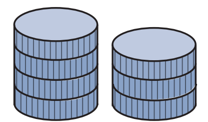
	July 2019	July 2020	August 2020
West End Offices	3.75%	3.75%↓	3.75%↓
City Offices	4.00%	4.00%	4.00%
Offices M25	5.00%	5.25%↑	5.25%↑
Provincial Offices	4.75%	5.00%	5.00%
High Street Retail	5.00%↑	6.00%	6.00%
Shopping Centres	5.50%↑	6.50%↑	6.50%↑
Retail Warehouse (open A1)	6.25%	6.75%↑	6.75%↑
Retail Warehouse (restricted)	6.50%	7.00%↑	7.00%↑
Foodstores (OMR)	4.75%	4.50%	4.50%
Ind/ Distribution (OMR)	4.25%	4.25%	4.25%
Industrial Multi-lets	4.00%	4.00%	4.00%
Leisure Parks	5.75%	6.75%↑	6.75%↑
London Leased (core) Hotels	4.25%	4.00%↑	4.00%↑
Regional Pubs (RPI)	4.25%	4.75%↑	4.75%↑

Source Savills

Key stats



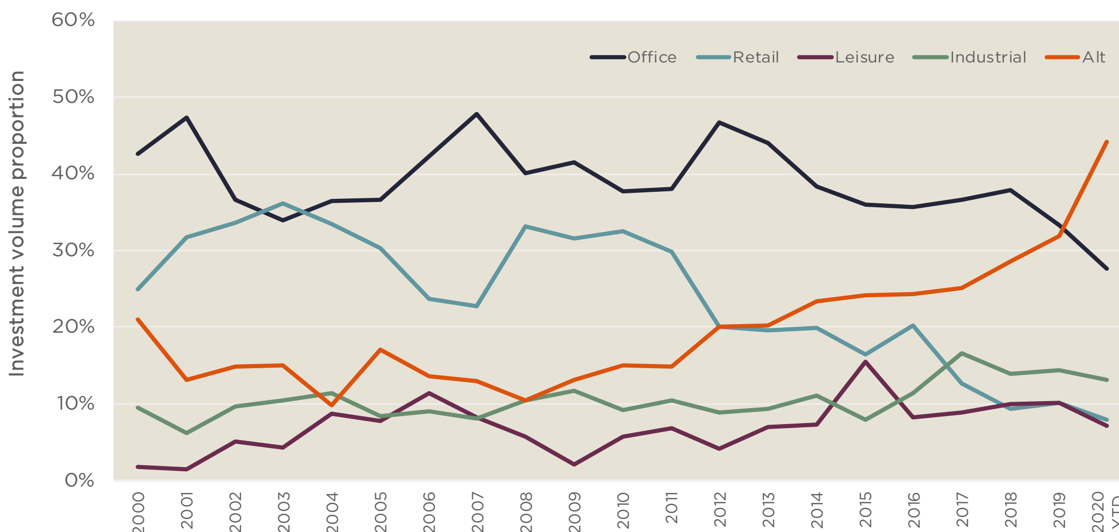
The proportion of the market accounted for by "alternatives"



£23.1bn
The total UK commercial property investment volume from January - August 2020

The amount of investment apportioned to the retail sector - the lowest level ever recorded

Proportion of the investment market by sector Alternatives now account for the highest proportion at 44%, and retail is as its lowest level ever at 8%



Source PropertyData.com

Will the record breaking logistics occupational market translate into increased investment volumes?

Demand for warehouse space in 2020 has already exceeded the annual average of 26.1m sq ft and reached 30.2m sq ft, and given the amount of space currently under offer, it is highly likely that 2020 will be the best year ever recorded for logistics take-up.

For investors and developers, the supply picture also remains healthy with vacancy currently sitting at 6.5% - well below the 12% needed for rental growth to falter. Indeed, Savills Research has created a model that allows the forecasting of vacancy rates into the future, and even in our most pessimistic scenarios, nationwide vacancy levels only reach 11.4% by the start of 2022.

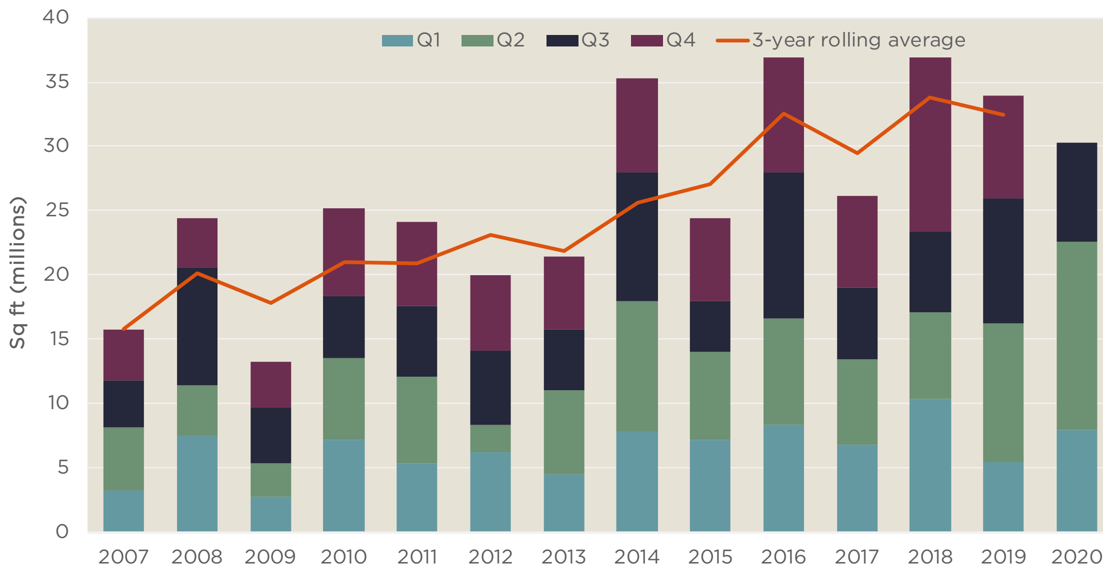
Whilst the three-year rolling average for logistics investment volumes has now reached its highest ever level of £9.1bn, there is often surprise that the corresponding fall in retail investment volumes would simply shift to logistics.

In the most part, the reason this hasn't happened can be attributed to the general maturing of the sector over time as developers who previously traded their up and build stock now tend to keep all core assets in their own funds. For institutional investors, access to most new Grade A stock can only be guaranteed through the forward funding of development by companies who still operate a developer trader model.

As the level of online retail has risen during the pandemic, to around 30% of all retail sales, the amount of warehouse space needed has also risen. Indeed, should the current level of online retail continue for the next 12 months then an additional 14.9m sq ft of warehouse space will be required.

Given the weight of capital still targeting the sector, combined with the lack of tradable Grade A stock, should the occupier market continue as it is at the moment, it is likely that rents will rise and there will be inward pressure on yields.

Logistics take-up 2020 likely to be the best year of take-up ever recorded

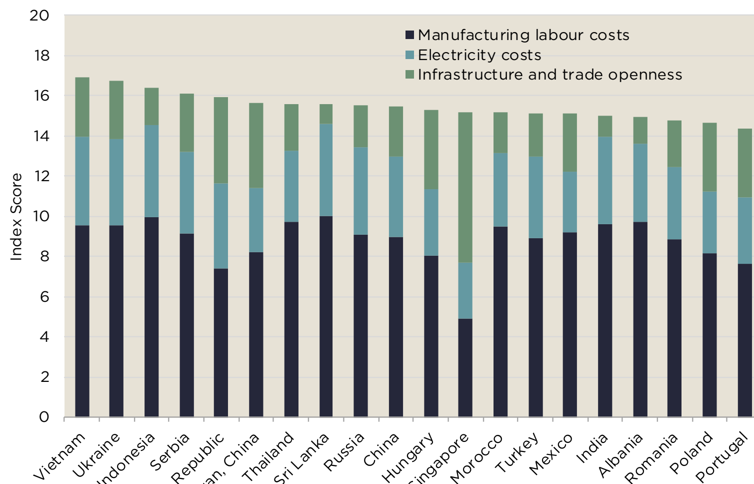


Source Savills

The impact of "near-shoring"?

The disruption associated with Covid-19 brought the resilience of manufacturing and retail supply chains into sharp relief. Whilst many supply chains have proved to be resilient, attention, at least in the mainstream press, is now turning to the potential of "near-shoring" manufacturing to protect supply chains. In our recent paper *Covid-19 and Global Manufacturing Supply Chains,* we highlight a number of factors that suggest that any great shift to near-shoring will be felt mainly at a continental level as markets with cheaper labour, lower energy costs and high levels of business transparency will benefit most from any supply chain changes. Whilst the UK performs well in some categories, the labour costs for manufacturing processes should mean the main benefit is felt in other markets.

Savills near-shoring index Ukraine, Serbia and the Czech republic top-ranked European countries



Source Savills

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