

Market in Minutes

savills

No surprise, quarterly volume slumps

Average prime yields moved higher again in May, from April and are now around 32 basis points higher than the end of last year. The expected negative impact on the UK economy, due to the COVID-19 lockdown has, so far, resulted in a record 20% contraction of the UK economy in April. Household consumption, which is nearly two-thirds of UK GDP, has fallen as a result of the lockdown, of course, and the re-opening of shops in mid-June will be a welcome fillip. It's interesting to highlight the one sector that saw a lower yield in May. Foodstores saw a 25 basis point yield reduction as household spending at supermarkets continued. Another potential future driver by the consumer will be the fact that the level of unsecured debt has fallen, as non-essential spending has meant disposable incomes have paid down credit cards, in particular.

The estimate for UK commercial investment volumes in Q2 is £2.75bn, which would represent the lowest recorded quarter since Q1 2009. Investors are certainly applying a "wait-and-see" approach. The latest UK 'all property' capital value growth data shows a sharp downturn in March (-2.4%), but a less severe monthly fall in both April (-1.8%) and May (-1.2%). This was surprising as an increasing month-on-month reduction in capital values, as seen in the end-2007 period, was expected. The year-on-year fall is currently 7.4%.

Savills prime yields

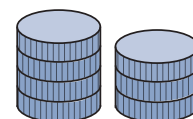
	May 2019	Apr 2020	May 2020
West End Offices	3.75%	3.75%↑	3.75%↑
City Offices	4.25%	4.00%	4.00%
Offices M25	5.00%	5.25%	5.25%↑
Provincial Offices	4.75%	5.00%	5.00%
High Street Retail	5.00%↑	5.50%↑	6.00%
Shopping centres	5.50%↑	6.50%↑	6.50%↑
Retail Warehouse (open A1)	6.00%	6.75%↑	6.75%↑
Retail Warehouse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

Source Savills

Key Stats

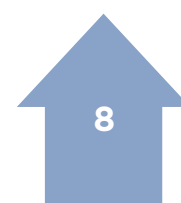


The UK average prime yield shift since end-2019



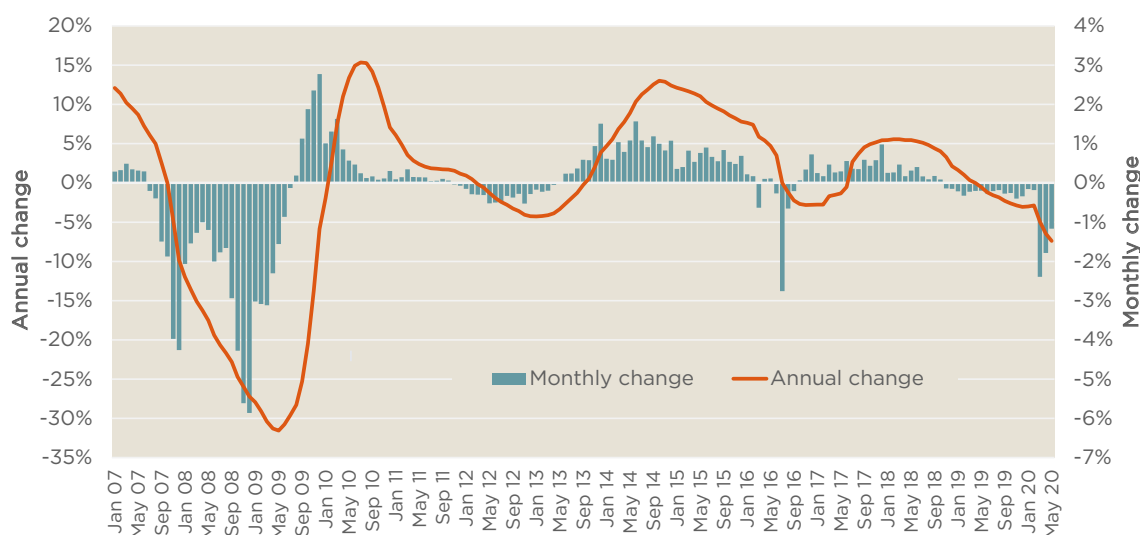
£2.75bn

Q2 estimated investment volume. 35% below the previous low in Q1 2009



Number of the 14 sectors that now have an upward prime yield expectation, compared to only three in May 2019

How much lower and for how long? Annual capital growth began to 'level out', but March brought the third largest monthly fall for 10 years. However, negative growth has improved since.



Source MSCI

Investors are discovering life sciences

The current UK commercial investment levels are not good, but not unexpected considering the lockdown and higher level of occupier uncertainty in the last couple of months. However, it's time to review which sectors will emerge quicker and stronger. Savills has seen a much larger interest in the life science real estate sector. It is a sector that Savills has advised in for decades, but the recent appetite, from all sizes of investors, including requests for market data and intelligence, has been significantly higher.

Emerging from COVID-19, also driven by the search for a vaccine, there is now a clear target of building upon the strength

and success of the UK life science sector. The level of investment by Government is being quoted as 'landmark' and will be the largest and fastest ever expansion to support innovation. The research and development (R&D) spend will be 0.8% of GDP and put the UK ahead of the USA, Japan, France and China, in percentage share terms.

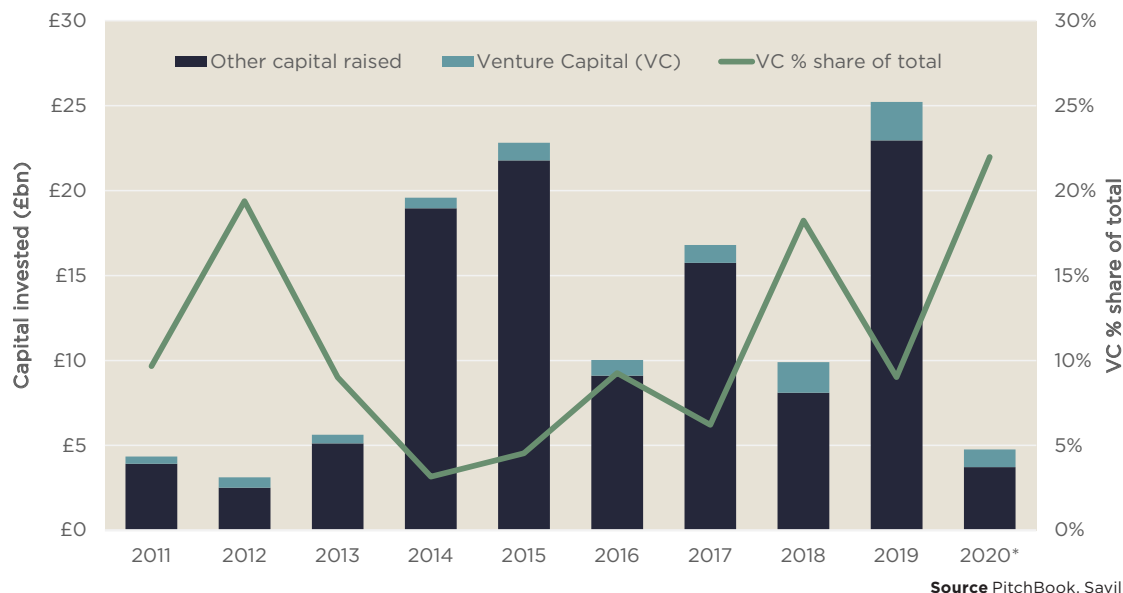
The most recent Budget, albeit pre-COVID-19, highlighted a raft of plans and measures to increase investment and create highly paid jobs within a wide range of sectors that will have an impact on the demand for all types of real estate to accommodate these jobs. The Budget documentation outlined life sciences,

but also touched upon the nuclear fusion, defence through to electric vehicles.

We would add to this list with quantum computing, cybersecurity and digital health, to name a few sectors that will drive demand for a real estate offering that may not exist in the required form today. This is the opportunity.

As shown in the chart below, the level of capital raised by companies within the life science sector has been significant. Such deals include initial public offerings, venture capital (VC), private equity and the often large mergers & acquisitions deals. The larger share of VC will drive growth of smaller and scale-up companies.

UK-headquartered capital raises in life sciences A buoyant 2019 provided life science companies with capital to spend, including growing headcount. Real estate demand will follow.

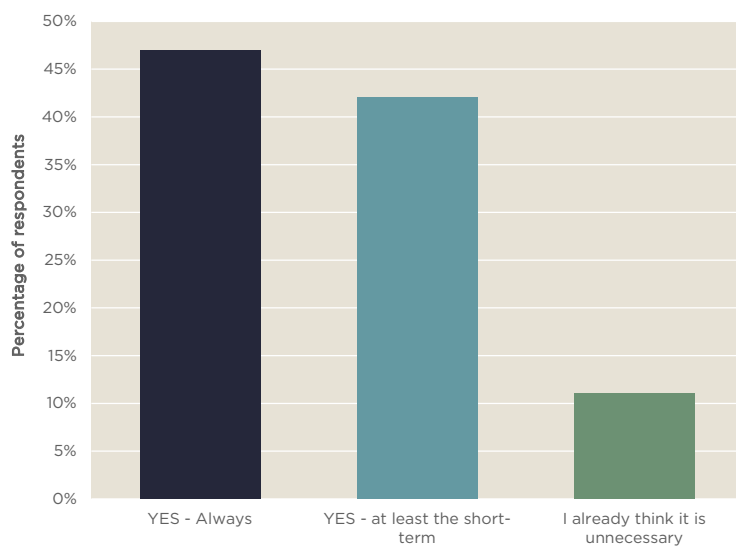


During the lockdown period, in the UK, Savills took an opportunity to gauge the opinions of its clients to understand their views, generally, of offices in a coronavirus world. This includes a pre- and post-lockdown opinion. As shown in the chart, 90% believe an office is a necessity for a company to operate successfully, at least in the short-term.

This survey was part of the wider Savills Office FiT programme and has presented a clear insight into the 'needs and wants' of office workers going forward. Thousands of data points have been created and it's shown that the office is important, but there will be changes to how they are used and, potentially, where they are located. As you would expect with Savills, the role of the home, as part of a remote working environment, has also been covered.

The survey report is available on the Savills website from mid-June.

Reimagining the office in a coronavirus-aware world



Savills team

Please contact us for further information

James Gulliford

Joint Head of UK Investment
020 7409 8711
jgulliford@savills.com

Richard Merryweather

Joint Head of UK Investment
020 7409 8838
rmerryweather@savills.com

Steven Lang

Director
Commercial Research
020 7409 8738
slang@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, India, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

