MARKET IN MINUTES

Savills Research

Market in Minutes

savills

Volumes above average

Investment volumes for UK Commercial real estate reached £62.1bn in 2018. This represents a fall of 5.7% year on year but a rise on the three year rolling average of £59.8bn.

Given the continued political uncertainty around Brexit and the cooling of some global economics market this should be seen a strong message the UK real estate remains a liquid and desirable investment.

Whilst the overall investment volumes paint a robust picture it is worth noting that all sectors, aside from leisure and alternatives, saw a decline in investment. Alternatives and mixed use accounted for 29% of all investment, the highest proportion ever recorded.

Interestingly, and somewhat surprisingly, given the positive news surrounding the industrial sector both volumes and market proportion declined year on year. Given the creation on prime stock is now dominated by a handful of companies who hold for income rather than trade it is difficult to see how volumes can increase by the same proportions as occupier demand has in the sector.

This weight of capital has resulted in little overall volatility in prime yields with the average yield maintained at 4.77% for the third month running, reflecting an outwards shift of 25bps since January 2018.

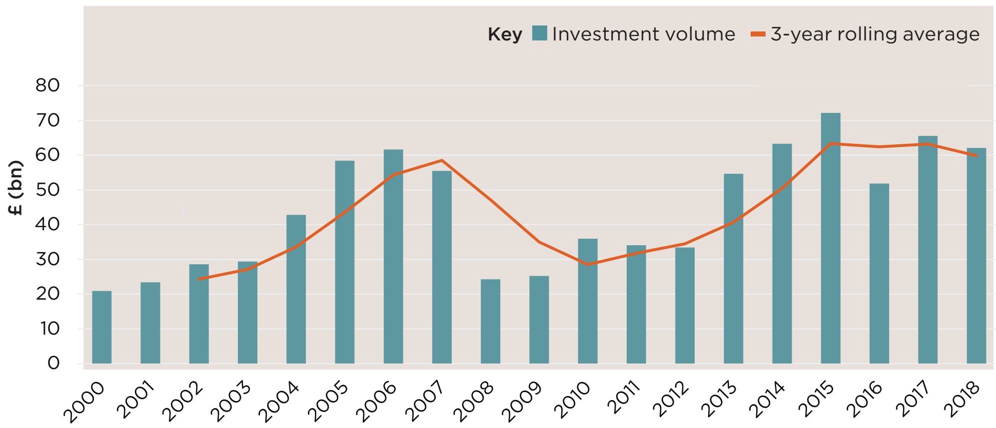
With numerous retail sectors showing outward pressure and no sectors expecting inward yield movements we expect our prime yield to continue edging outwards into 2019.

Savills Prime yields

	Jan 18	Dec 18	Jan 19
West End Office	3.25%	3.50%	3.50%
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	4.00%	4.50%	4.50% ↑
Shopping centres	4.75%	5.25% ↑	5.25% ↑
Retail Warehouse (open A1)	5.00%	6.00%	6.00%
Retail Warehouse (restricted)	5.25%	6.25%	6.25%
Foodstores (OMR)	4.50%	4.75%	4.75%
Industrial Distribution (OMR)	4.50% ↓	4.25%	4.25%
Industrial Multi-lets	4.25%	4.00%	4.00%
Leisure Parks	5.00%	5.50%	5.50%
Regional Hotels	4.50%	4.25%	4.25%

Source Savills Research

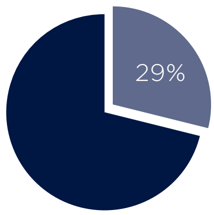
Investment Volumes slight fall but above three year average



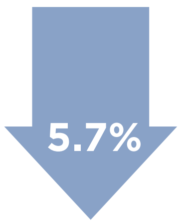
Source Savills Research, Property Data

Key Stats

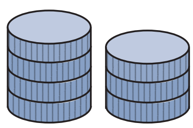
Outward shift in Savills average prime yield in 2018



Proportion of the market made up of mixed use and alternatives, highest level ever

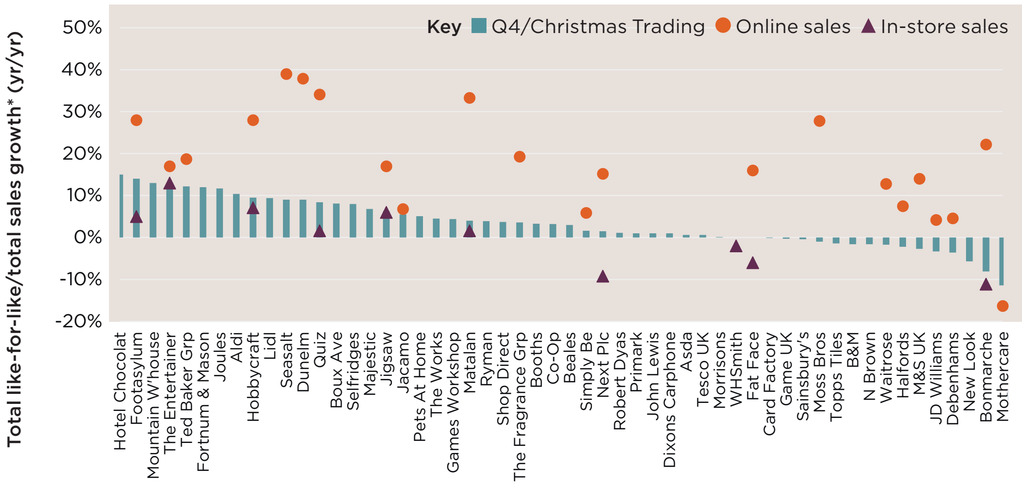


Fall in total investment volumes compared to 2017



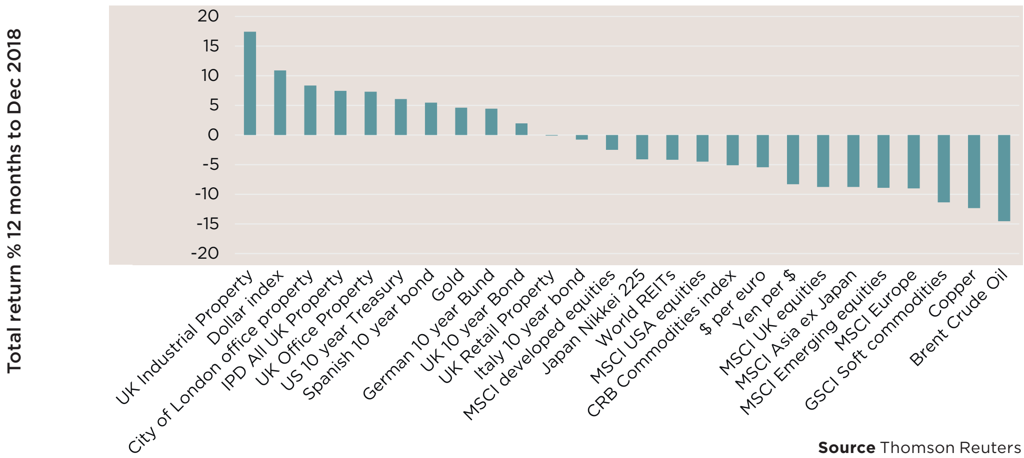
£59.8bn
three year rolling average investment volume

Retail Christmas sales better than expected



Source Savills Research; retailer reports; Kantar WorldPanel

Property compared UK Real estate at top of the pile



Source Thomson Reuters

CHRISTMAS RETAILER PERFORMANCE WAS MIXED, BUT NOT THAT BAD

There's no point denying that market conditions are tough for retailers and landlords. But, it's not solely down to consumers cutting their spending. Yes, consumer confidence has taken a hit due to the continued Brexit uncertainty yet retail spend for December was up 3.8% and 3.1% in value and volume terms respectively on 2017.

While sales value growth did slow over 2018 due to slowing inflation, volume performance (often considered a better indicator of consumer appetite to shop) remained pretty robust with the 2.9% reported for December up on the 2.0% reported for December 2017. This was mirrored in retailer performance over Christmas. Retailer performance was very much driven by online, averaging 17.9% with in-store sales reporting a far more subdued average growth rate of 0.6%. Yet let's not forget that this growth in online is off a lower base with the majority of retail transactions still taking place in stores.

Whilst owners of retail real estate will be reflecting on what this means for 2019 the owners of industrial and logistics property are struggling to keep pace with demand.

Take-up for warehouses units over 100,000 sq ft reached 34.1m sq ft which is 8m sq ft more than the year before. Of this 53% was let directly to retailers. We expect this trend to continue in the short to medium term as many retailers commit to significant investments in their supply chains. Both Next and Marks & Spencer have publicly stated their intentions to invest hundreds of millions in their supply chains in the coming years. Whilst the speculative development market has reacted and is now delivering the highest amount of new space since 2006 the level of occupier demand is currently strong enough to absorb this space, although we do expect significant volatility in vacancy rates which could mean rental growth stutters in certain markets.

UK REAL ESTATE WELL POSITIONED COMPARATIVELY

As demonstrated in the second graph above UK real estate has performed remarkably well compared to other global asset classes, with UK industrials leading the charge with 12 month returns of 17.4%. Of course the weakening of Sterling will have had an impact but the fundamentals remain strong. With little risk of over development in many sectors and occupier demand in many markets reaching surprisingly high levels 2019 may see certain sectors repeat this performance.

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

Kevin Mofid
Director
Commercial Research
020 3618 3612
kmofid@savills.com