

YoY Chg 12-Mo. Forecast

5.6%
Average Initial Yield*



£17.6bn
Total Volume*



£5.6bn
Office Volume



£1.9bn
Retail Volume



£1.9bn
Industrial Volume



*All Property Classes and Development Sites
(Total Volume and Median Initial Yield)

ECONOMIC OVERVIEW: General Election Result Boosts Market Confidence

The general election results boosted investor sentiment and the FTSE100 rose 4.5% over the following week. The UK Composite PMI rose to 53 in January 2020 – a sharp rise on previous months, suggesting that the UK economy will grow steadily. After three general elections in the last five years, UK parliament should enjoy a period of stability. The Conservative party has a large majority and should be in government for the next five years.

During their campaign, the Conservative party pledged to increase public sector investment by over £20bn a year if they remained in government. The government will confirm their new spending plans when they announce the Budget on 11 March 2020, which should complete the UK's turnaround from austerity to fiscal stimulus.

INVESTMENT OVERVIEW: Strong End to an Uncertain Year

Overall, around £56bn of assets transacted in 2019 – a low total compared to previous years. However, considering that the year saw the UK extend its deadline to leave the EU three times, parliament vote on Brexit 17 times, and a new prime minister take office who then called an early general election it is unsurprising that investment volumes were down.

The year 2019 ended strongly with £17.6bn of investment in the final quarter. Alternatives and development sites were almost half that total, as investors continued to look beyond core investment and the main sectors to achieve their goals. Entity-level deals and large portfolios drove this increase, as they did throughout 2019 – a year in which the top 10 deals were over a third of total volumes.

It shouldn't be missed that retail volumes picked up in the fourth quarter at £1.9bn. This increase is a reminder that liquidity in the retail sector can improve if asking prices are realistic. Regional volumes also improved with notable deals by M7 Real Estate, for The Mailbox in Birmingham for £190m, and Kennedy Wilson, which bought The Heights Brooklands office campus in Surrey for £136m.

INDICATORS

53
UK Composite PMI (Jan 2020)



-9
GfK Consumer Confidence (Jan 2020)



0.9%
5-Yr Swap (Dec 2019)

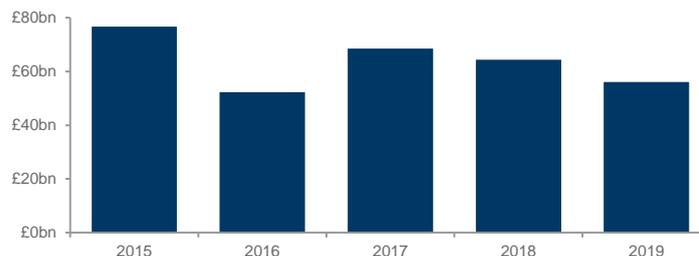


0.6%
10-Yr Government Bonds (Dec 2019)

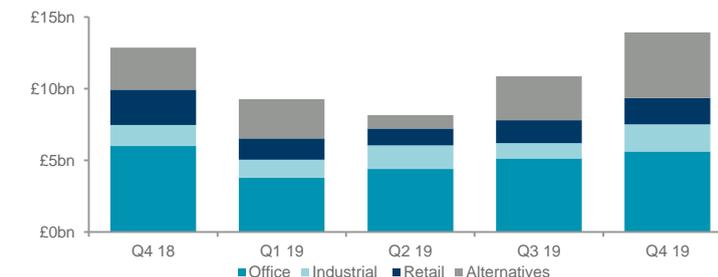


Source: IHS Markit, GfK, Bank of England

INVESTMENT SALES VOLUME (£bn)



INVESTMENT SALES VOLUME BY SECTOR (£bn)



Source: Real Capital Analytics

PRICING OVERVIEW: All-Time High Spreads, Polarisation by Income Risk Continues

Overall, yields have remained low with the help of falling government bond yields. Spreads to 10-yr government bond yields are over 350bps for most prime assets and over 500bps against the average all property yield. Across the UK, pricing continues to polarise between assets with low-risk income (high occupancy, good covenants and long leases) and high-risk income, with the latter seeing their yields rise further.

Yields for retail and industrial had been moving in opposite directions and average retail yields were up to 7.1% and industrial yields were down to 5.7% by 2018. However, the industrial sector saw a 30bp rise in yields in 2019 suggesting that investors are being more conservative with their rental growth assumptions while speculative construction remains high. That said, prime industrial yields remain at all-time lows.

TOP DEALS OVERVIEW: Alternatives Dominate and London Returns with a Bang

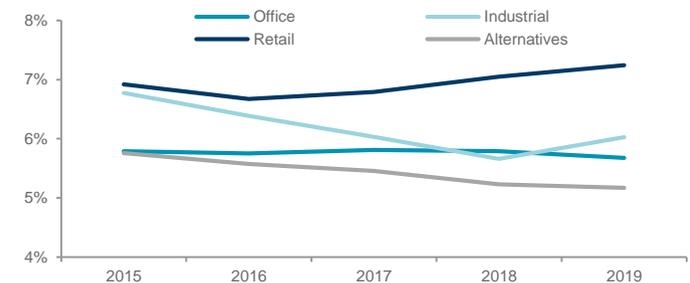
The UK Competition and Markets Authority (the CMA) approved the Unite group's acquisition of Liberty Living in November 2019 after the deal was announced earlier in July. It was the largest deal of the quarter at £1.4bn and will create a combined student housing platform of 73,000 beds in 173 properties across the UK. This wasn't the only large alternatives deal in the fourth quarter: Student Castle sold its student housing portfolio to Singapore Press Holdings for £448m and DTGO Corporation bought 17 IHG and Hilton-branded hotels for £450m.

Meanwhile, three large deals completed in London. Pontegadea Immobiliaria bought the Post Building for around £600m; Capital & Counties (Capco) sold its Earls Court redevelopment project for £424m to Delancey and APG, and construction will now start at the 40 Leadenhall site following its sale to M&G.

Outlook

- Although the UK has decided to leave the EU, the two parties will begin negotiating the new UK-EU relationship in March 2020. Investors are aware that 2020 will be a key phase of Brexit and even though much political uncertainty has dissipated, a great amount of change lies ahead
- London offices saw one of the largest accelerations in investment activity of all sectors following the general election. With many potential buyers still looking for assets and strong competition for space among occupiers, London offices could be the top performing investment sector in 2020
- While London offices may enjoy a bounce in performance in 2020, investment beyond offices, retail and industrial is likely to exceed a third of total volumes, as investors' long-term, structural shift into alternative real estate continues

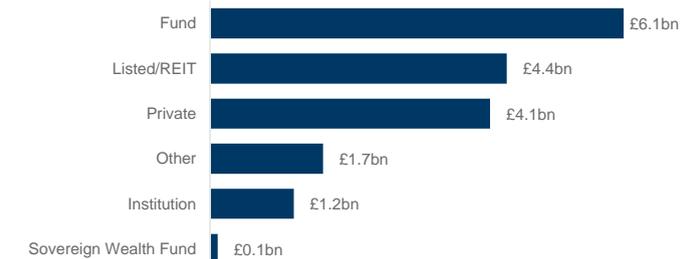
AVERAGE INITIAL YIELD TREND



Source: Real Capital Analytics Hedonic Yield Series

Note: Alternatives = Average of Residential and Hotel Series

TOTAL ACQUISITIONS BY CAPITAL SECTOR (Q4 2019)



INVESTMENT ACTIVITY

PROPERTY TYPE	DEAL COUNT	SALES VOLUME (£bn)	MEDIAN DEAL SIZE (£m)	INITIAL YIELD
Office	114	5.6	15.4	5.2%
Retail	61	1.9	12.0	7.2%
Industrial	96	1.9	13.4	6.0%
Alternatives	57	4.6	19.0	5.2%
Other (inc. Development Sites)	75	3.6	16.0	5.1%
TOTAL	403	17.6	15.2	5.6%

SIGNIFICANT SALES

PROPERTY NAME	PROPERTY TYPE	BUYER	SELLER	PURCHASE PRICE	MARKET
Liberty Living Group (Portfolio)	Alternatives	Unite Students REIT	CPP Investment Board	£1.4bn	Multiple Locations
The Post Building	Office	Pontegadea Immobiliaria	Brockton Capital / Oxford Properties	£602m	London
IHG / Hilton (Portfolio)	Alternatives	DTGO Corporation	Marathon Asset Management	£450m	Multiple Locations
Student Castle (Portfolio)	Alternatives	Singapore Press Holdings	Student Castle	£448m	Multiple Locations
Earls Court Project (Development Site)	Other	Delancey / APG	Capco	£424m	London
40 Leadenhall (Development Site)	Other	M&G Real Estate	Nuveen Real Estate	£400m	London

Sources: Real Capital Analytics, Cushman & Wakefield Research Closed transactions over £5 million

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