Investment Review Q1 2016

Investment falls to lowest level in three years as investors negotiate tricky terrain

UK Commercial Property Investment Review Q1 2016

The Other Side of the Mountain

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Overview

Mark Stansfield
Senior Real Estate Analyst

Could UK commercial property’s bull run finally be coming to an end? The data would suggest so. The £12.1bn invested in Q1 2016 was down 26% compared to Q1 2015 and the weakest quarterly total since Q2 2013, thus continuing the slowdown we recorded in the second half of 2015. The quarter was also notable for a rise in the average all property yield for the first time in three years.

Myriad factors are persuading investors to be cautious, not least uncertainty surrounding the EU referendum in June and the perception that the UK is more advanced in the cycle than other countries. There were also strong signs in Q1 that the wall of money coming from overseas is finally starting to abate, with foreign investment falling to its lowest level since Q3 2013.

Investor caution was most visible in the retail sector. Although subdued for some time, investment into retail reached a new nadir in Q1. Just £1.6bn traded, by far the weakest quarter in the last three years and representing just 14% of total investment, versus an average of 36% per quarter in 2008–2011. Despite low inflation and low unemployment, investors are clearly wary of the structural issues engulfing the sector and the impact online retailing is having on demand for shops. The slowdown here is clearly not only Brexit-related.

Most regions suffered a drop in investment in Q1 2016. However, the West Midlands, North West and South West all rallied, and at £809m it was the fourth-strongest quarter for Big Six office investment since the crisis. Meanwhile a complex picture is emerging in London: investment in the City and Docklands was at its lowest level since Q3 2011—partly on account of Brexit fears—while the West End and Midtown proved more resilient.

Paradoxically, the downturn in investment has coincided with a relatively buoyant period for occupier markets around the country—almost a complete reverse of the trend two years ago. Many markets have vacancy rates comparable to the previous peak in 2007, spurring rental growth. So with property still attractive on a relative value basis, investment activity could recover fairly strongly once referendum uncertainty is alleviated in the second half of the year.

Key Figures

£12.1bn
invested in UK commercial property in Q1 2016

down 26%
from Q1 2015

£4.0bn
of foreign investment
a drop of 44% Y-o-Y

6.80%
average all property yield
a rise of 15 bps Q-o-Q

14% of all investment poured into the retail sector
a post-crisis low

£555m spent by US investors
an 83% drop from Q1 2015
JLL have started 2016 as they finished 2015 - at the top of the sales table - with a final sales figure of £1.94bn. Their sale of The Economist Plaza was one of a number of standout Q1 deals. CBRE’s second place finish included sales at 2 West Regent Street, Glasgow and Temple Quay, Bristol, while advising London & Continental Railways on the disposal of their stake in the King’s Cross Central Partnership helped Savills into third. Cushman & Wakefield also built on their strong performance in the final quarter of last year, following their merger with DTZ, by topping the acquisition table. Key deals for the firm included two forward purchases at the International Quarter in Stratford on behalf of Deutsche Asset & Wealth Management and Legal & General.

80% of Q1 2016’s top 15 Acquisition agents* subscribe to Propex.  
83% of Q1 2016’s top 15 Vendor agents* subscribe to Propex.  
*Includes single and multi-branch agencies

To find out more about CoStar Propex visit www.costar.co.uk/products/propex
Q1 2016 League Tables: Single Branch Agents

Advising on only five deals, single branch agent GM Real Estate topped both the sale and acquisition tables by advising on a combined total of £615m worth of Q1 deals. Highlights include the £130m sale of 1 America Square, EC3, and the £297.5m purchase of Thomas More Square, E1, on behalf of Fosun Management and Resolution Property. There were also standout performances from Michael Elliott, David Baroukh Associates, Dowley Turner Real Estate and Tudor Toone.

**Single Branch Agents - Vendor**

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<th>Rank</th>
<th>Vendor Agent</th>
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<tr>
<td>2</td>
<td>Michael Elliott</td>
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<td>3</td>
<td>David Baroukh Associates (DBA)</td>
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<td>4</td>
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<td>Tudor Toone</td>
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<td>Harvey Spack Field</td>
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<td>Green &amp; Partners</td>
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**Single Branch Agents - Acquisition**

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Source: CoStar Group

The Other Side of the Mountain

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Data, Analytics and News Have Come Together

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CoStar’s proprietary data, which underpins this report, is sourced directly from UK property agents, investors and other involved parties to accurately reflect the transactional market in real time.

Typically 850+ investment deals are recorded each quarter, more than any other data source. The Analytics team then overlays top-down analysis of the UK market on this unique dataset, breaking down investment trends by sector, sub-sector, geography, lot size, investor type, and yield.

Finally the News team adds perspective to the analysis by providing timely industry and market updates.

For more information on our methodology or the data in this report please contact one of the authors

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