LLOYD-ROBERTS INVESTMENTS

# 2017 – Political landscape continues to impact on UK Commercial Property (not necessarily in a bad way).

**The political upheaval that defined 2016 marked a profound shift in focus for UK Commercial property markets as events increasingly played their part in driving or stalling decisions. Nonetheless, pricing remained relatively stable with commentators continuing to highlight the UK's safe haven status underpinned by transparency and stable legal structures.**

Indeed, elections in Europe may rock the continent and enhance the fabled safe haven status still further despite uncertainty before and after the triggering of Article 50. There are plenty of industry commentators prepared to argue that fresh opportunities are arising thanks to the changing business climate and especially in view of potential European political instability and 'Tumponomics' becoming a reality.

With Brexit and the US election, 2016 will be a difficult year to 'Trump' in terms of seismic political events that have the markets in turmoil but 2017 has the potential to rival it. Subsequent to the Trump inauguration on 20 January we can look forward to the Dutch and French Presidential elections in March and April respectively and in both cases there are strong anti-EU candidates. More property / UK centric there is the Bank of England Inflation Report on 2 February, the deadline to trigger article 50 on 30 March and business rates revaluation on 1 April; and of course (not forgetting) the Basel committee on banking supervision meeting to discuss the capital reserves banks will be required to hold in order to lend.

The rise in business rates is likely to hit the retail sector in particular which is already battling other pressures and the banking decision could have wide ranging implications as it seeks to set capital reserve thresholds. Deutsche Bank have already labelled these 'humungously draconian' and they may have the affect of restricting leveraging ratios and propensity to lend.

So there are certainly challenges for 2017 but in spite of all this sentiment remains fairly positive. As realisation grows that the negotiations on how the UK is to exit and then trade with the EU are likely to be protracted and complex, businesses will continue to make staff and property decisions so occupancy demands are likely to remain stable.

Add to this signs that infrastructure spending is rising up the government's agenda, a continued low interest rate environment plus the relative weakness of the currency and there are credible reasons to believe the UK will remain attractive to global capital.

## Focus on Finance

### Development Loans

Following a little cautiousness after the EU referendum, Development Finance has returned to the criteria which was in place for the first half of 2016. Lenders are mainly interested in developments with capital values below £1m per individual unit. Mixed-use developments are very popular due to a spread of risk, some finance has also returned for speculative commercial developments.

Specialist development lenders are offering loans at 65% loan to gross development value; this can be 75-80% of costs at an interest rate of 6-7%.

### Property VAT Loans

Investors buying property with VAT attached can now borrow the VAT loan on an unsecured basis against the VAT repayment. The loan does not affect any mortgage or loan secured against the property. It helps to reduce the initial equity requirement for investors.


## What they're saying

*" Global private investors will continue to see the UK as a first port of call for diversifying their holdings and protecting capital. Overall we expect 2017 to be a continuation of the solid year of returns and transactions volumes we have seen in 2016. We are just hoping it is less eventful!"*

***Anthony Duggan, a partner in Capital Markets Research Knight Frank***

*" Property is well placed to out-perform other investment asset classes in the medium term wiith average total returns likely t exceed 5% per annum, which, when inflation is expected to remain relatively low is very satisfactory."*

***Angus McIntosh, Economist at Real Estate Forecasting***

*" In a world of uncertainty investors will swing to an income-producing and risk-off strategy and property will do well from this with prices rising for these assets. The real opportunity is to create long-term secure income producing assets whether through developing this product or filling up voids to create product for those chasing these assets. We believe this is where the best returns will be."*

***Matt Oakley, Head of Commercial Research, Savills***

*" In a period of falling or flat capital growth, income will become the primary driver of performance and the current income yield of 4-6% from good quality UK real estate assets should continue to attract investors looking for a stable income return."*

***Matthew Richardson, head of real estate research at Fidelity International***

*" 2016 was full of surprises but we have been amazed by how resilient the real estate market has been. The UK real estate market has seen no immediate impact although institutional investors have seen some delays. The depreciation in Sterling has allowed for private investors to fill the gap in the market, but geopolitical risk has slowed down decision making."*

***Will Rowson, partner at Hodes Weill***

## Any Questions

We hope that this has provided some food for thought and if you have any queries about the investment market or property management please:

phone our office number on **+44 (0)203 642 1588**
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## Sector-by-sector

**Office:** There are some concerns about the City following Brexit but a recent surge in City deals has mitigated these to an extent allied with a sustained strong performance by the tech-driven City-fringe market. Regionally, renewed emphasis on reducing costs will continue the push for cost effective back office space and the right sizing of requirements. Cities such as Southampton, Bournemouth, Nottingham and Sheffield could all benefit from increased demand.

**Industrial:** With availability at record lows and demand unaffected by the uncertainty, this sector looks likely to continue to out-perform the rest of the market due to its long and often indexed leases. This is supported by an acute shortage of quality stock in many parts of the country and the insatiable demand from "want it now" consumers driving e-commerce logistics demand. JLL predict Industrial will deliver the highest total investment return of the commercial sectors in 2017.

**Retail:** Retail property markets are braced for a range of challenges, not least increasing costs as a result of the fall in the value of sterling, rising business rates costs following the revaluation, a hike in the National Living Wage from £7.20 to £7.50 per hour. Outside of London, the High Street continues to restructure with lettings being done at post-recession, re-based rental levels. However, the threat of persistent vacancy remains a very real problem for many High Streets.