Commercial property predictions for 2018

The UK property proved remarkably resilient last year, exceeding most expectations amid the backdrop of political turmoil and drops in domestic spending. The weak pound attracted record levels of overseas investment and the strength of sectors like industrial and alternatives such as student housing ensured investment breached the £50bn mark for the fifth year in a row.

1) Investment volume to exceed £50bn again.

The market looks set to continue to attract big international spenders looking to buy at scale. Development potential in the regions combined with development activity in London will bring new Grade A stock to market across sectors driving capital activity in 2018.

Colliers' estimation sits below JLL's £55bn and CBRE's £60bn. Final figures for 2017 are as yet unavailable, but by end of Q3 they were at £42.7bn.

2) Industrial will see top performance.

Industrials were the top performing core asset class in 2017, exhibiting high returns and investment volumes and most commentators expect this trend to continue through 2018. CBRE predicts industrial and logistics rental growth of more than 5% due to the consistent gap in supply and demand in urban areas.

3) Regional hotspots to become increasingly sought after.

Slowing capital returns for expensive industrials and a correction of London property will make regional hotspots an attractive alternative for income returns. As London property yields maintain current levels, many predict a rise in offices and quality high street retail in top cities outside the capital but careful stock selection will be key.

4) E-commerce to be driving force behind logistics demand.

Retail spending and industry sector employment growth will mean greater demand for limited space especially in warehousing and logistics in or close to urban centres. JLL see a number of innovations in this sector to address this including multi-story warehousing, multiple mezzanine floors, automation In big buildings and on-demand access to warehouse space.

Focus on Finance

In the light of interest rates being on the move again, should property investors be thinking about locking into fixed rate debt?

The general consensus is that rates will not be higher than 1% by the end of next year with various economists expecting another rate increase in the second half of next year while others believe there may be two 0.25% increases

With five-year fixed rate cost of funds priced at just over 1%, does it make sense to fix the rate on investment property borrowing in the short-term? Ultimately it depends upon the risk profile of the investor and the underlying assets behind the loan.

Some lenders do offer incentives to fix the rate: one is offering fixed rate margins for loans of £2m or more from 2.2% - which is lower than the base rate equivalent.

Another option is to have part of the loan floating over base, with the balance fixed, you benefit from low rates, at the same time, you have an insurance policy in place.

5) Healthcare continues to be a fast growing sub-sector.

A sub sector that is predicted by all to continue to grow is healthcare / assisted living. With the demographic 'time bomb' feeding the UK health market bed crisis. Julie Evans (head of healthcare, hotels and leisure at Knight Frank): "Our research estimates that circa 6,600 care homes are at risk of closure over the next five years [due to new regulatory framework], which equates to 140,000 beds".

"The B Word": Brexit continues to cause confusion and an unwelcome source of instability within the market. Most commentators however, believe a deal will be in place by late 2018 / early 2019 and the government has no choice but to shed some light on Brexit strategy, which will being a welcome boost to the occupier and investment markets. It is worth bearing in mind that both the market and the UK economy as a whole has proved remarkably resilient during this period having recorded the fastest growing economy of the G7 nations alongside Germany.

What they're saying

> *"The UK will continue to benefit from ongoing questions surrounding US and Chinese foreign and economic policies, as its reputation as a safe, liquid and transparent haven for investment and will continue to attract global institutional money."*

Tony Horrell, Colliers' UK & Ireland chief executive

> *"The major reasons for investing in the UK property remain – liquidity, lot sizes, landlord-favourable leases, the strong economic and leasing fundamentals, and at present, relatively high yields and a weak currency."*

Ben Burton, JLLs' head of UK office and capital market research.

> *"While some property sectors will see extremely patchy growth performance, the rise and rise of industrials and logistics looks likely to continue, and the beds sectors' such as hotels, built-to-rent and healthcare are also set to grow strongly."*

Miles Gibson, head of UK research at CBRE

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:

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Sector-by-sector

Office

- Growth of flexible offices in central London to continue, competing with leasehold
- Substantial drop in supply and availability of grade A space may force occupiers to consider prelet options

Industrial

- Multi-storey warehouses to meet demand and reduce emissions, and consolidation centres to reduce peak traffic in city centres
- Technology: automation and robots in big buildings and on-demand access to warehouse space

Retail

- Secondary locations and centres will continue to deteriorate against those attracting tourist spend and convenience locations
- Further casualties of e-commerce consumer shifts, with closures expected
- New types of retail occupiers to deliver brand experiences and customer engagement in high footfall spots to complement online

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