

# UK Commercial Property – Heading into 2019

## 2018 – Surprisingly solid

**In spite of the continuing political uncertainty, 2018 proved to be a remarkably robust year in the UK commercial property market in terms of occupancy, investment and overall returns. After a remarkable three year run, investment has fallen back but nowhere near as far as many feared at the start of the year, while net absorption of space has risen.**

CoStar reports investment in the first three quarters of the year of £39bn, down 9% on the corresponding period in 2017, with office and hotel investment up, industrial flat and retail and student accommodation down. Though the data is not yet available, the strong likelihood is again the £50bn mark will have been achieved in overall transactional volume.

### Why has the market in the main held up so well?

1) UK commercial property retains its reputation as a safe haven and for good reason. 2) The depreciation of Sterling has encouraged significant volumes of overseas investment, especially from the Far East and 3) Domestic investors have re-engaged strongly both the UK institutions (seeking to re-weight) and Local authorities driven by the need to replace central government funding.

## 2019 – What to look out for

**Retail** remains a worry with the relentlessly bad news from last year (House of Fraser / Debenhams), likely to follow us into the new. Total deal volumes stand at £1.14bn for 2018, the lowest annual total since 2008.

There is a considerable stock of retail property which owners would seek to exit, but their pricing aspirations – driven by historic book values – are disconnected from market reality. Throughout 2018 we saw a thorough shake-up of the retail sector, and we will see much more of the same in 2019.

However, if most investors shun the sector and yields jump over the next 12 months, then there could be some interesting opportunities to buy defensive retail assets (e.g. dominant shopping centres, convenience stores). According to Schrodgers Head of Global RE, Duncan Owen, *“There may also be opportunities in town centre buildings which can be re-modelled into mixed-use schemes incorporating apartments, medical clinics, places of worship”.*

**Industrial** remains the best performing sector however pricing has moved significantly over the year which will change the dynamic for 2019. Though online retail continues to be the force driving this sectors performance, investments in logistics now look expensive due to

## Focus on Finance

### New 10-year interest only option for commercial borrowers

Many investors are finding that when they come to refinance there is a lack of appetite from their existing clearing bank lender. While the banks invariably want loans that are secured on their commercial investment properties to be simultaneously paying capital and interest, a number of the new style ‘challenger’ lenders is now offering 10-year interest-only loans for commercial investment properties. In addition to the interest-only terms, it is also requiring a lighter debt service cover than the clearing banks.



the heavy repricing over the past 12 – 24 months. Therefore the best opportunities might well be found in the secondary rather than the prime markets.

The regional **office markets** have performed particularly well, helped no doubt by major government requirements but also compelling stories around the economies in the likes of Manchester, Glasgow and Birmingham.

Developing older buildings in the CBD is where many are seeking value in the office sector. Or perhaps by looking at adjacent areas where yields are higher and which are being transformed either by technology, life sciences clusters, new transport links or other regeneration and new infrastructure. Examples include Bloomsbury and Waterloo in London.

## Outlook

Evidence suggests that both the economy and property market have performed much better than expected since the EU referendum, with sustained momentum visible through most of 2018. It might be said that many external factors remain unchanged for 2019 – mainly the extraordinary weight of global capital in search of stable returns. If any degree of certainty is achieved in Q1 2019 (Brexit is 29th March), then the remainder of the year may prove to be business as usual for UK commercial property.

## What they're saying

*“Apart from the well-publicised structural change in retail, commercial property markets will remain remarkably robust in 2019 as the UK economy withstands the buffeting from continuing Brexit uncertainty.”*

**Simon Cooke, Executive Director, APAM**

*“Demand and supply imbalance prevail in both the office and logistics markets.”*

**Tony Brown, head of real estate at M&G Investments**

*“There will undoubtedly be turbulence in 2019, but property has always been a long-term business and the key will be to maintain perspective. We look at investment over years, not months. The volatility in the market may even present interesting opportunities.”*

**Peter Ferrari, Chief Executive of Ashby Capital.**

## 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**  
or email Henry [henry.lloyd-roberts@lri.uk.com](mailto:henry.lloyd-roberts@lri.uk.com)

## Regional - Bristol

Andy Heath, Partner in Cushman & Wakefield's Office agency team in the South West city, predicts: “2019 promises to be a seminal year in Bristol as we enter 12 months with no grade A product being delivered, demand increasing from both inward investment and organic growth, a demographic that is one of the youngest and strongest in the country and a booming tech sector.

*“We anticipate the rental growth witnessed in the past 24 months (24%) will continue with headline rents anticipated to be in the mid-high £30s per sq ft. Infrastructure improvements within the city are now progressing which, together with the electrification of the West Coast Mainline reducing journey times from Temple Meads to Paddington to 1 hour 20 minutes, gives everyone confidence that Bristol is now beginning of realise its full potential.”*

## Contact

Tel: +44 (0)203 642 1588  
Email: [enquiries@lri.uk.com](mailto:enquiries@lri.uk.com)  
[www.lri.uk.com](http://www.lri.uk.com)

1st Floor  
Millbank Tower  
21-24 Millbank  
London, SW1P 4QP