

A Clear Vision for 2020

The consensus is that the strong showing by the Tories in the December 2019 election is a positive for business. Forecasting the performance of the commercial property market is a dangerous game, particularly so in these politically volatile times. With this in mind we are sitting on the fence but have reproduced some of Knight Frank's insightful and bold predictions below.

The UK will remain a dominant global destination for the commercial real estate investment in 2020.

Despite a slowdown in investment in 2019 due to a lack of stock and Brexit, the UK remained a top three destination globally for commercial property investment. We could see a drive of activity in the first quarter, followed by moderated growth over the rest of the year.

In London offices, KF predicts five years of rental growth to come.

KF are seeing many businesses pressing ahead with expansion or relocation plans. This is against a backdrop of a severe lack of options and an office development pipeline that continues to be raided. Prime headline rents in the West End should reach £125 per square foot by the end of 2023, while Soho, Fitzrovia and Marylebone are all expected to join the £100 psf rent club by 2023.

KF says the retail landscape in 2020 (and beyond) will be defined by the 6 P's – Perspective, Purpose, People, Place, Profitability and Pricing.

The UK retail market is not going to stage a Lazarus style recovery and nor is it a case of waiting for the storm to pass. However, the high street definitely has a long-term sustainable future and it is short-sighted to write off the whole retail sector as many are doing.

Strong growth forecasts will spur development activity in the logistics sector.

Strong returns have spurred a hive of activity and we have witnessed a significant amount of new stock added to the market in 2019. Returns for logistics are forecast to continue to outperform other sectors and we expect a similar amount of new stock to come through the pipeline in 2020.

Focus on Finance

There is appetite from lenders when looking at finance for office and industrial investments.

However, location can play an important part. Loan options vary depending upon the size of debt and single asset or portfolio. There are currently debt and pension funds offering historically low long-term fixed rate loans. Recent terms have seen pricing at 3% fixed for 10 years. Location and asset quality are important factors.



KF predicts a strong long-term outlook to drive investor appeal for healthcare property.

Uncertainty in other domestic and global markets will keep investors keen on the long-dated income provided by healthcare assets, and the demand-supply fundamentals are very strong with new development struggling to keep pace with an ageing population.

What they're saying

"Having secured a workable Brexit deal, the United Kingdom turns out to be the winner from the European divorce from the European Union. The UK benefits from a long transition period and growth exceeds 2% as foreign direct investment resumes now that the outlook is clarified."

Joe Zidle, Chief Investment Strategist at Blackstone

"Plan B therefore might be to sell office, industrial or even residential assets into what is now likely to be a fairly strong market, at least for the first half of 2020."

Tom Sharman, Head of Research for Natwest Real Estate Finance at Natwest, speculating on likely disposals from M&G and other open-ended Funds

"Against the backdrop of some political uncertainty in the UK, economic growth is set to remain positive. The low interest environment, supported by central bank policies, is set to continue throughout 2020."

Richard Holberton, Head of Occupier Research, CBRE EMEA

Regional - Leeds

Healthy demand from occupiers and conversion of existing office stock to other uses caused further vacancy compression in Leeds. Vacancies fell by 50bps over the year to sit at just 4.5% in Q4 2019, a record low. Perhaps the key occupier story of the year was Channel 4's decision to choose Leeds as its new regional base.

Rent growth has remained stable but not spectacular through 2019, but continues to outperform the national office average. It was a standout year for investment in Leeds. Boosted by government hub deals. Q3 2019 was a record quarter, delivering over £700m in transactions and bucking the national trend.

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)20 3908 6986**
or email Henry henry.lloyd-roberts@lri.uk.com

Contact

Tel: +44 (0)20 3908 6986
Email: enquiries@lri.uk.com
www.lri.uk.com

115 Mount Street
London
W1K 3NQ