BNP PARIBAS REAL ESTATE

Real Estate for a changing world

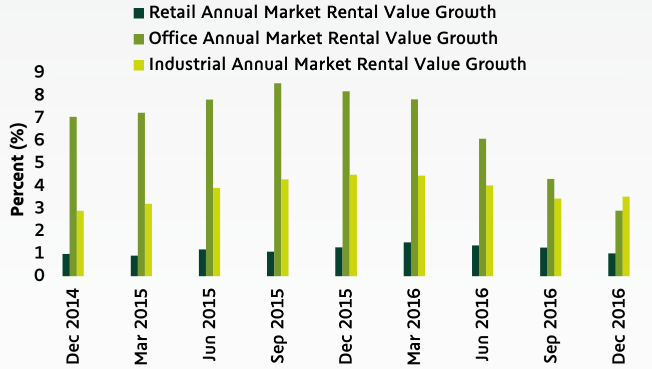
RESEARCH

INVESTMENT MONTHLY - FEB 2017

FOREIGN OWNERSHIP OF UK REAL ESTATE CONTINUES

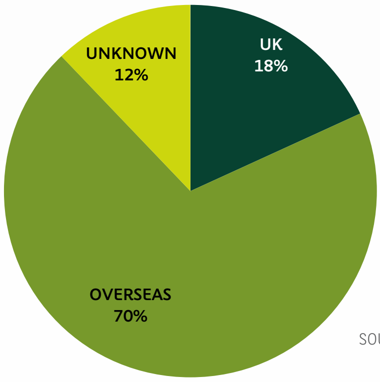
- The investment market was experiencing a slowdown prior to the EU Referendum, with both yield compression and rental growth slowing, however many observers felt there would be a rebound post referendum, if the result had been to remain.
- That 'bounce' never came once the UK voted to 'Leave', and this hampered end-year investment volumes, as well as capital value and rental growth prospects, although not to the scale being forecast.
- The immediate aftermath saw capital values take a knock to the tune of -3.3% in July, with City offices the worst hurt at -6.1%.
- Since then the rate of capital value declines have stabilised across all sectors and the last four MSCI Monthly Indexes, from October to January, have all recorded capital growth at the 'All Property' level, suggesting the worst could be behind us and the market has now stabilised.
- In the final three months of last year, and in-particular December, we did see a pick-up in investment activity, with a 184% increase in London offices month-on-month and an 83% increase in deal activity across the board, with close to £6bn transacted in the final four weeks of the year. This ensured December ended the year as top month for deal activity once again (which has been the case in every year post 2008 crash).
- Perhaps one of the most interesting developments in the wake of the British electorate voting to 'Take Back Control', has been the increasing trend for UK institutions to exit London, in-particular, to be replaced by overseas investors.
- Overseas investors, having already pocketed a c.10-15% discount, compared to a year ago, due to the depreciation of Sterling, have become increasingly active and spent £3.2bn in Q4 in Central London alone.
- Standard Life, TH Real Estate, Columbia Threadneedle, Aberdeen Asset Management and Derwent have disposed of 54 assets in The Capital post June 23rd, with many of the perceived 'trophy assets' going to overseas investors.
- This year the theme has continued, with seven of the top ten purchasers into the UK, being from overseas.As we move through the year we expect to see the trend continue, with UK institutions taking advantage of the liquidity and pricing on offer in London, and overseas investors taking advantage of the mild capital adjustments and favourable currency.
- Logistics, regional offices and alternatives (PRS, student housing and data centres), particularly those with long dated income will attract the majority of investors attention.

FIG 1. RENTAL GROWTH HAD STARTED TO SLOW PRIOR TO BREXIT



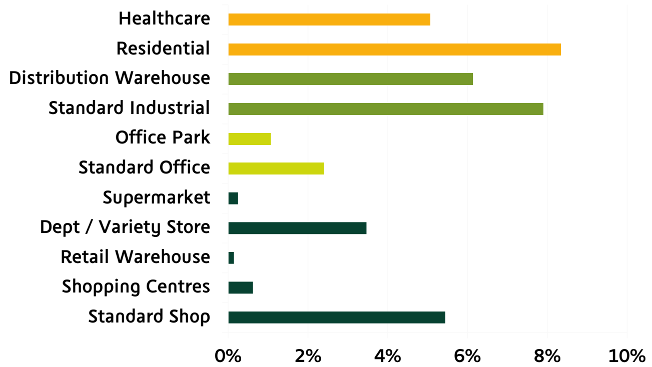
SOURCE: MSCI

FIG 2. OVERSEAS INVESTORS DOMINATE PURCHASES IN LONDON POST-BREXIT (JULY 2016-END DEC 16)



SOURCE: BNPPRE / RCA

FIG 3. ALTERNATIVES & INDUSTRIALS WEATHER THE POST-BREXIT STORM - ANNUAL TOTAL RETURNS TO END DEC '16



SOURCE: MSCI

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