



# UK INVESTMENT BRIEFING

## Q1 2018

### INVESTMENT

- Investment volumes of £12.7bn were transacted in the first quarter; down just 3% on the same period in 2017.
- Overseas investors accounted for 39% of buyer volume, having represented almost half of all investment across 2017.
- The hotel sector witnessed the largest increase in investment against Q1 2017; total investment of £1.2bn representing a 259% increase.
- Investor demand for logistics and alternatives assets, as well as urban investments in London and the major cities, remains robust.
- Prime yields continue to hold their ground, with few motivated sellers in the market.
- Data from MSCI shows equivalent yields in the wider market are following suit. The All Property equivalent yield impact for the first three months (IPD UK Monthly) of 2018 came in at a positive 0.8%.
- MSCI also reported All Property total returns for the first three months of 2018 at 2.3%. The Hotel segment reporting the highest quarterly return at 4.9%.
- 10-year UK Gilt yields remain at 1.5%. In contrast, US Government 10-year bonds yield circa 3% and global investors remain concerned regarding the implications of further rises in this benchmark rate.



For Q1 2018 (monthly data) All Property quarterly total returns were

**2.3%**



Investment volumes in Q1 2018 vs. Q1 2017 were down just

**3%**



Overseas investors' share of the market in Q1 2018 was

**39%**

## CONTACTS



**Damian Cronk**  
Head of Commercial Transactions  
damian.cronk@realestate.bnpparibas  
+44 (0)20 7318 5065



**Thomas Grounds**  
Senior Associate Director, Research  
thomas.grounds@realestate.bnpparibas  
+44 (0)20 7338 4134



**Andrea Ferranti**  
Senior Research Analyst  
andrea.ferranti@realestate.bnpparibas  
+44 (0)20 7338 4155



In Q1 2018 UK commercial property investment reached £12.7bn, not far behind the £13.1bn seen in Q1 2017. Overseas buyers continued to dominate the market with a 39% share, although this still represents a decline from their 49% share in 2017 overall. The office sector saw the sharpest fall in volumes, down 21% against Q1 2017; a result driven by a sharp fall of 47% in Central London office transaction volumes. Although it should be noted that Central London office investment in Q1 2018 was only down 7% versus Q1 2016.

The first quarter was notable for the fact that the two largest deals by lot size were in the alternatives sector: Brookfield Asset Management acquired SACO, a serviced apartment business, from Oaktree Capital Management for c.£430M; and paid c.£520m for the Enigma Portfolio, a UK student housing portfolio owned by CBRE Global Investors and the Curlew Student Trust.

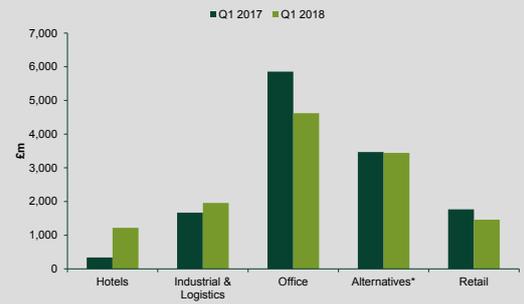
Although investment versus the same quarter in 2017 was marginally down, at -3%, the hotel and industrial & logistics sectors witnessed increases in volume, up 259% and 17% respectively. Notably, these two sectors saw the highest total returns in 2017 according to the IPD UK Annual Index, Hotels saw a total return of 14% and Industrial 20%.

**“Overseas Investors accounted for 39% of total investment volumes in Q1”**

Data from the the MSCI IPD UK Monthly Index for the first three months of 2018, demonstrates the extent to which UK commercial property rental values and yields continue to remain robust in the face of economic headwinds and ongoing political uncertainty. All Property saw market rental value growth of 0.4% over the quarter, whilst yield impact continues to contribute positively, albeit marginally, to total returns, up 0.8%. The Hotel and Industrial segments remained the top two performers in Q1 (according to the IPD UK Monthly Index), reporting total returns of 4.9% and 4.3% respectively.

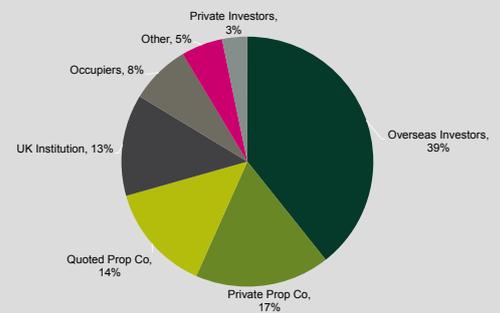
Looking forward, it is clear that investors will continue to be increasingly focussed on the impact of wider structural change in the economy and its impact on property markets, something exemplified by the level of interest around the industrial & logistics sector. Retail remains a sector under pressure, but we should be cognisant of too much generalisation. Not all logistics investments are bullet-proof; likewise, not all retail locations are struggling. New, successful retail occupiers are emerging and with rents (and business rates) rebased, some assets’ occupational costs will look good value compared to their industrial & logistics peers.

UK ALL PROPERTY INVESTMENT VOLUMES



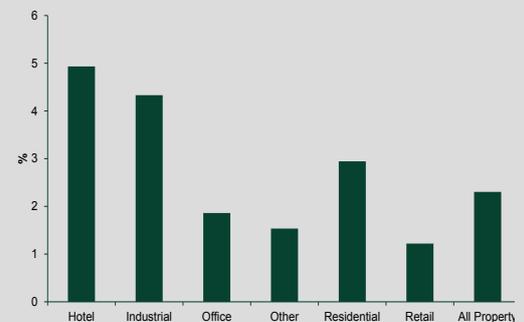
Source: BNPP RE/Property Data Ltd  
\*Alternatives includes: car showrooms, healthcare, leisure, mixed-use assets, mixed-use portfolios, retirement housing and student housing.

UK ALL PROPERTY BUYER TYPE Q1 2018



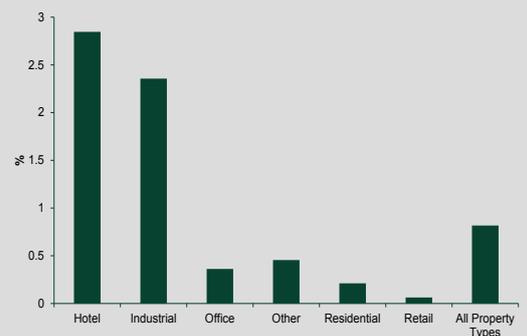
Source: BNPP RE/ Property Data Ltd

TOTAL RETURNS Q1 2018 – MSCI IPD UK MONTHLY INDEX



Source: MSCI

YIELD IMPACT Q1 2018 – MSCI IPD UK MONTHLY INDEX



Source: MSCI