Cushman & Wakefield research

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Chris Hessel of Cushman & Wakefield assesses the impact of Brexit on commercial property deals

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Since the vote to leave the EU was announced on 24 June 2016, Cushman & Wakefield research has provided detailed insight into the reaction and response of the UK real estate market.

Working with my capital markets and valuation colleagues, the research team has been tracking the progress of approximately ?14bn worth of assets which were on the market prior to the vote.

Although forecasts ahead of the vote were in some cases suggesting near-apocalyptic consequences for UK commercial real estate, the reality has been far more benign. There was, however, noticeably slower investment activity in the immediate aftermath of Brexit - although the market had already started to cool from record levels of investment in mid-2015.

The research

Across the UK, close to ?18bn was invested in the second half of 2016, some 27% less than the ?24bn in the first half of the year. Full year 2016 activity was 41% lower than 2015. Across London the level of investment was half 2015 volumes at ?19.2bn, whereas the rest of the UK was marginally more resilient with volumes one third lower at ?22.7bn.

Since the vote, Cushman & Wakefield has been monitoring the sales progress of over 300 assets worth over ?14bn, all of which were being marketed ahead of the vote. Just over half of these assets (by value) were located in London, though by number it was just over a third.

Offices accounted for just over half the sample by value, with retail a further third. To date, nearly ?8bn of the assets monitored have sold, representing around half the total investment activity over the second half of 2016. With fewer than 10% of assets in the market pre-Brexit still progressing, we now have a clearer picture on how the market has evolved since the vote.

Typically transactions take 3 months to go under offer. However since Brexit it has taken up to 5 or even 6 months for deals to progress this far. There has been a clear polarisation of activity between London and the rest of the UK.

In London, fewer deals have completed or gone under offer, with others not proceeding. Outside of the capital, the market has shown greater resilience with a higher share of deals progressing and fewer not completing. This helps explain the higher drop in investment activity across London.

Notably, however, earlier expectations of a significant fall in values has not materialised.

Assets outside of London have seen a slightly bigger correction than those within London

To date, close to 200 assets marketed ahead of Brexit have now sold. Comparing the offer price to the final completion price, the average weighted discount was just 3%. This very modest reduction could reflect the fact we do not yet know the full implications of the UK?s decision to leave the EU and how that will manifest itself in occupational markets.

Assets located outside of London have seen a slightly bigger correction (-3.9%) compared to those within London (-2.4%). Given the greater reduction in activity in London, this might appear to be an anomaly. But in truth it might simply indicate more accurate pricing in the capital.

Retail - in particular unit shops - have proved easier to sell but have attracted a larger discount (-5%) and shown a higher degree of variability in pricing.

Offices have seen the second largest pricing falls, with those outside London attracting a larger discount and higher degree of variation. While London offices have seen fewer deals progress, the discount and variability in pricing has been lower, which could reflect higher transparency across the London market.

Industrial (including warehousing) assets sold above offer price by a weighted average of 1.3%.

The overall minimal discounting across all markets that our research shows, is also evident in other analysis. Prime yields have edged out by 25bps - mostly in office and retail sectors, while industrial and logistics yields have been holding steady. [bps stands for 'basis points': a basis point is 1% of 1%, so 25bps is 0.25%]

Figures from MSCI show average values at the All Property level were just 3.5% lower since the end of May to November, with retail and office sectors impacted the most. That corroborates almost perfectly with our own analysis.

Ongoing uncertainty

While we have seen the UK market bounce back from its stall in Q3 following the shock of the Referendum result, we anticipate the ongoing uncertainty concerning how the UK with exit the EU to continue to weigh on the property sector. As such, we expect the UK to underperform the rest of Europe with weaker and perhaps negative capital growth in 2017.

For further detail please see the full research document UK capital markets Brexit tracker - the final story February 2017 .

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Further information

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