MIPIM Special

UK market 2017: The only certainty is uncertainty

Einen Blick auf den Immobilienmarkt in Großbritannien wirft der Autor des vorliegenden Beitrags. Dabei geht er ausführlich auf die Folgen des Brexit-Schocks ein, der vor allem in der Hauptstadt London bereits zu Rückgängen bei den Mieteinnahmen geführt hat. Die Lust auf die Finanzierung von Luxuswohnprojekten sei darüber hinaus aufgrund einer Kombination von Übersättigung, sinkender Nachfrage und den jüngsten staatlichen Eingriffen im Steuerbereich zurückgegangen. Der Medien- und Technologiesektor habe jedoch den Markt gleichzeitig aufleben lassen. Obwohl verschiedene Wirtschaftskommentatoren ihre Prognosen nach oben revidiert hätten und es genügend Indizien für einen günstigeren Ausblick für das laufende Jahr gebe, möchte der Autor lieber keine Prognose wagen, da es zu viele Unsicherheitsfaktoren gebe. Red.

2016 was a year of change for the UK property sector. A market that had experienced several years of strong occupier and investment demand, ready availability of capital and steady rental/capital growth had to adjust to a new climate. While the UK commercial property market has become something of a global leader in recent years, investment activity slowed significantly during 2016. According to figures from JLL, total UK investment volumes (excluding forward funding and development) decreased 28 percent year-on-year to 52.1 billion euro in 2016. The Central London Market accounted for 42 percent of all UK investment volumes, marking a 37 percent decrease year-on-year.

While there was already a sense of slowdown at the beginning of 2016, this was further exacerbated following the June referendum, which returned a shock decision to exit the EU. With the nature of the UK's departure and the outcome of any future trading agreements still to be determined, there remains a high degree of uncertainty.

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Yet despite some of the more pessimistic predictions, there are still plenty of positives to be found and London is perhaps heading towards Brexit in better economic health than many expected. Confidence in London has held up in some quarters with notable deals including Wells Fargo's acquisition of a new 23 000 square meters European Headquarters and a pre-letting of some 50 000 square meters to Apple at the Battersea Power Station development.

Confidence has exceeded expectations

Development activity has also continued apace and last year London was second only to New York and ahead of Los Angeles, Paris and Tokyo in terms of development starts. This continued confidence in the London economy is one level, perhaps unsurprising. Despite facing a myriad of threats, not just limited to Brexit, there is continued evidence that it is a city in which people want to live, work, study and visit. Although undeniably a major finance centre, some of London's more recent success as a business location is down to its rise as a hub for technology and innovation. As most technology and media firms are not subject to the same levels of regulatory scrutiny as the banking and financial services sectors, they are likely to be less impacted by departure from the EU. And even the financial sector itself is evolving as it becomes closely aligned to the technology sector and is therefore becoming less dependent on trading functions.

This trend is already being reflected in letting activity, which experienced something of a resurgence in Q4 of 2016, following a preceding two quarters of inertia. Unsurprisingly, financial services occupiers continue to take a cautious approach and are withholding from all but the most essential leasing transactions. Appetite from the media and technology sectors has, however, filled some of this void and is responsible for much of the uplift in activity towards the end of last year.

Anecdotal evidence suggests that occupiers will continue to be attracted to new-build Grade A space that offers the benefits of connectivity, employee wellbeing and positive branding. As ever, these will continue to attract the bulk of the investment, while secondary stock is likely to suffer both on the occupational and investment fronts. According to Cushman & Wakefield's latest Central London bulletin, prime rents remained stable during 2016, with the exception of the City of London, where rents softened. According to C&W, rents could begin too see some further falls during 2017 with prime rents declining by four to five percent.

Polarization depending on lease duration

The most obvious and immediate consequence of Brexit for the lending market has been a clear polarization between buildings on long leases, which remain eminently financeable and those assets held on shorter leases, which have been rendered extremely challenging to finance. While this clearly presents an opportunity for alternative lenders to come into the market with new products, the traditional lenders are likely to maintain a cautious approach, particularly in relation to the type of asset financed and the loan-to-values offered. Whereas City of London offices with exposure to financial tenants have fallen out of favour with lenders, markets such as hotels are likely to be perceived as more attractive as they offer operational businesses with strong cashflow potential and have, to date, benefitted from Brexit if anything due to increased occupancy rates off the back of a fall in sterling values.

Another well-publicised benefit of the devaluation of sterling post-Brexit, has been an influx of far eastern investors. They have buoyed the investment market and sustained transactional activity while the UK and European institutional investors are pausing for breath.

It remains to be seen whether this level of interest and activity can be sustained, especially if The People's Bank of China imposes more stringent capital controls to slow the outflow of capital. For the time being though, it seems Chinese investors will continue to flock to London on that basis that entry prices are some 15-20 percent lower than a year ago and that prime buildings are yielding 4-5 percent, equating to a level of return that is difficult to beat elsewhere.

US investment also on the rise

The US has also been an active inward investor, typically in technology related deals. Google, Apple, Facebook and Expedia have all recently committed to a London presence. Another key growth sector is medical and life science, a sector, which is enjoying a resurgence after raising a record-breaking amount of capital since 2015. As a result of all that cash, London, and the areas around Oxford and Cambridge, are becoming hubs of innovation. Away from the Capital, there is plenty of evidence that the regional markets have been less affected by the uncertainty surrounding Brexit. The occupational markets tend to be more aligned with localised interests and are therefore not as susceptible to occupier migration as the more international occupier base of Central London.

And while appetite for lending on luxury residential projects in Central London has all but disappeared due to a combination of over-saturation, decreasing demand and recent government changes to taxation, the UK's continued housing shortage means there are opportunities elsewhere. Towns in the south east of England and other major UK regional cities still represent an opportunity for their localised markets. The private rented sector (PRS), in particular, remains an attractive asset class with significant growth potential. pbb has recently provided an 85 million British Pounds facility to a scheme in the heart of Manchester city centre, which will be one of the biggest UK residential towers to be built outside London since the financial crisis.

Given the nature of the UK's property market and the extraordinary events of the past 12 months, it is practically impossible to make any predictions. Although various economic commentators have revised their forecasts upwards and there is plenty of evidence to suggest a more positive outlook, the future is still very uncertain. Clearly both borrowers and lenders will need to adapt to this climate of uncertainty and will need to be prepared to change their outlook and approach on a regular basis.

In this respect, it is perhaps also unhelpful to view the UK market (and recent political events) in isolation. Whichever course the UK's eventual departure from the EU takes, the implications (both positive and negative) are likely to be more widespread as we are operating in a global marketplace.

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