UK Capital Markets

Review & Outlook

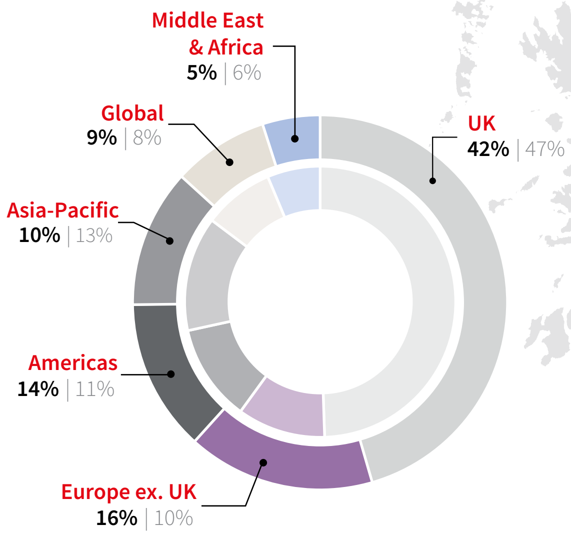
2020/2021

JLL Achieve Ambitions

UK Real Estate - Direct Investment 2020

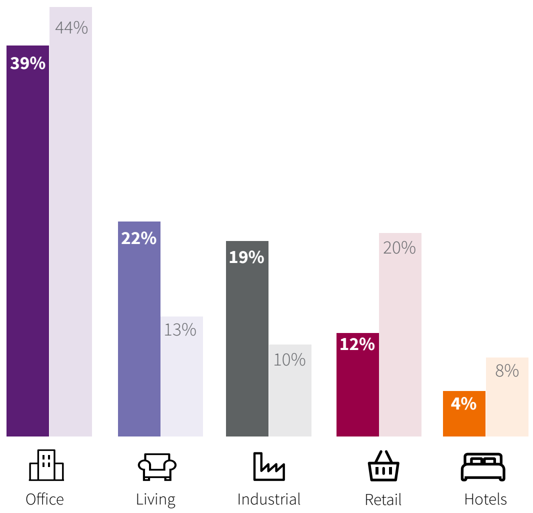
Source of capital

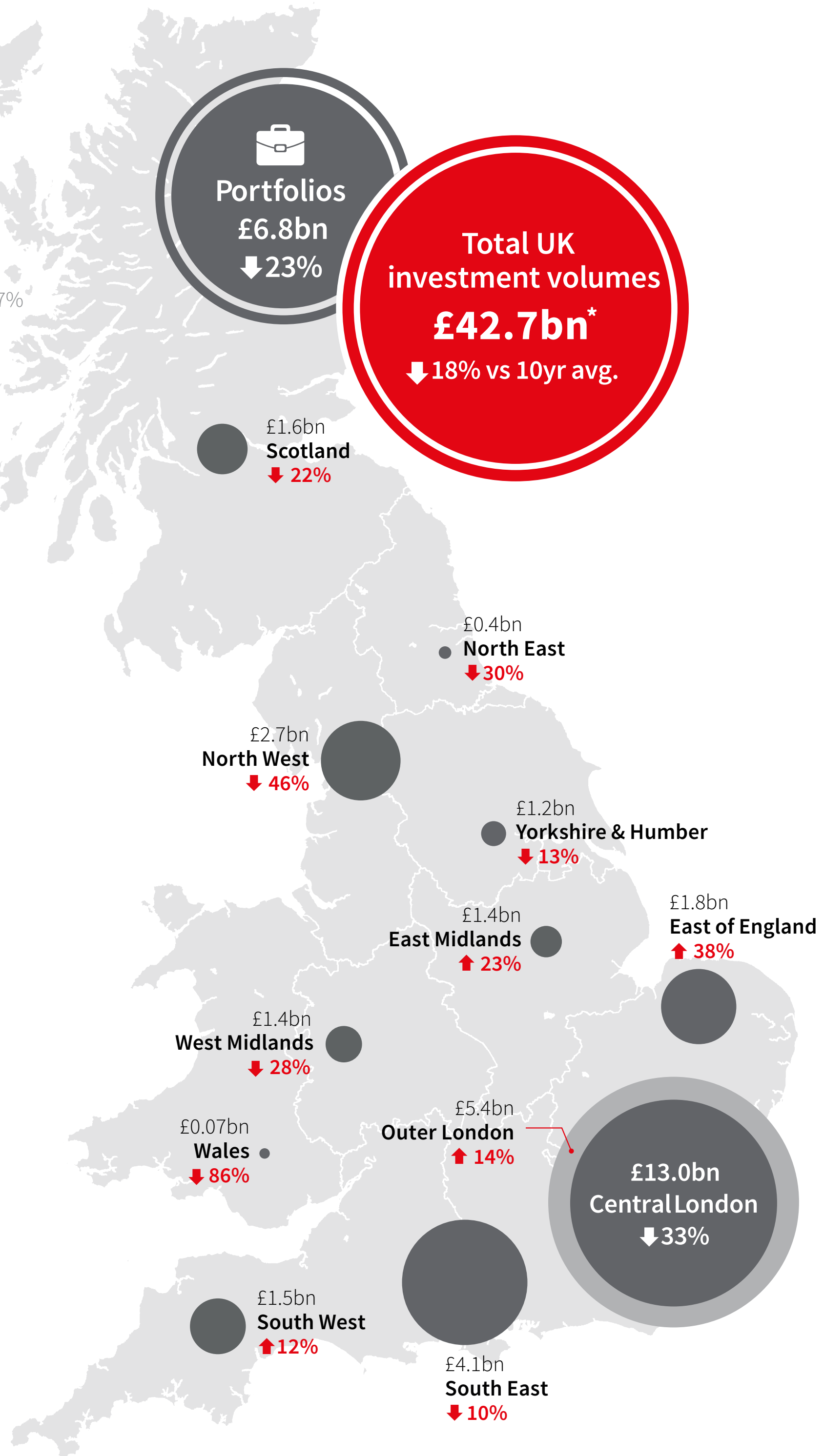
Regional share of total investment, 2020 vs 10-year average



Investment by sector

Sector share of total investment, 2020 vs 10-year average





* excludes corporate finance and development deals

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2020 Review

Strong recovery brings 2020 investment volumes to £42.7bn

Investment across the UK recovered well towards the end of 2020, following a period of very low activity through much of the first half of the year as a result of the Covid-19 pandemic. The fourth quarter alone saw £19.4bn invested across the UK, up 6% on 2019 Q4 when £18.3bn was traded, and 10% above the Q4 10-year average of £17.6bn. This was the fourth highest individual quarter on record after 2013 Q4 (£23.0bn), 2017 Q4 (£23.0bn) and 2014 Q4 (£22.5bn).

The strong end to the year brought 2020 investment volumes to £42.7bn, 15% down on the 2019 figure of £50.4bn and 18% below on the 10-year average of £52.0bn. The full-year volumes were comfortably ahead of expectations and represent a remarkable upturn from the low point of Q2 when just £4.2bn was transacted, the lowest quarterly volumes since 2009 Q2 at the height of the Global Financial Crisis.

Logistics and Living sectors lead the way

In terms of sectoral performance, Industrial & Logistics was unsurprisingly the standout given the huge increase in importance of the supply chain and subsequent boom in demand for logistics space. Full-year volumes for the sector were £8.3bn, 43% up on the £5.8bn seen in 2019 and 35% ahead of the 10-year average of £6.1bn. This is the second highest year ever after 2017, when £11.0bn was traded. Blackstone were responsible for the three largest logistics acquisitions of the year, with the £500m purchase of Hansteen in February, which as an entity-level transaction sits outside the aggregate volumes quoted, followed by the 26-asset Platform portfolio bought for £473m in October, and the 8-asset EPIC portfolio bought for £335m in December.

The Living sectors also proved resilient, particularly multifamily residential. While total Living volumes of £9.5bn were 16% down on the £11.3bn seen in 2019, the share of total investment was broadly stable at 22%. This figure excludes the £4.7bn iQ student housing platform deal which further reinforces the growing strength of the market and would push Living volumes up to the highest ever level if included. The Living sectors were responsible for two of the largest deals of 2020 – AXA's £800m purchase of Dolphin Square in Central London during Q3, and Quadreal's Q4 acquisition of the Realstar Portfolio for £580m.

The office sector remains comfortably the largest with £16.6bn traded in 2020. Despite weaker activity through much of the year, the Central London and South East office markets were among the fastest to recover in recent months. The retail and hotel sectors unsurprisingly saw lower levels of investment throughout, with both heavily impacted by the pandemic. Hotels saw £1.7bn invested, the lowest figure since 2009, and retail investment was just £5.0bn, the lowest ever level.

The UK and London retain their global appeal

International investors accounted for 58% of all transaction volumes, rising to 83% in Central London, both record high shares. This is despite travel restrictions and uncertainty around Brexit – intuitively you might expect the international share to be lower than average this year, but in fact the opposite was true. The USA was the largest source of overseas capital with £3.1bn of acquisitions, followed by Canada who also saw £3.1bn and Germany with £2.5bn.

There are a number of reasons why UK commercial real estate remains incredibly attractive to international investors – high levels of transparency and liquidity, a strong pipeline of talent and culture of innovation, established strengths in the growing science and technology sectors, and generous returns relative to other asset classes and other global property markets. These will all ensure the UK continues to draw strong investment, both domestic and international.

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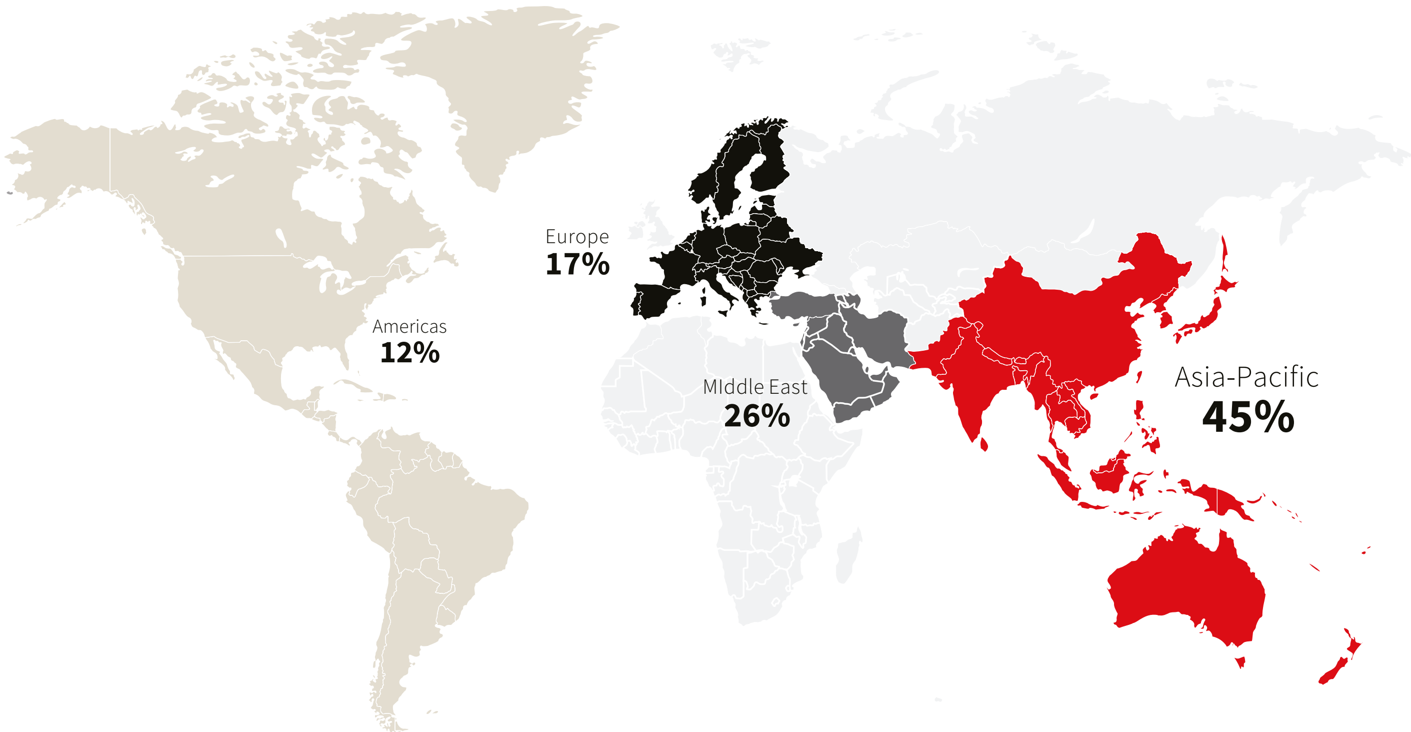
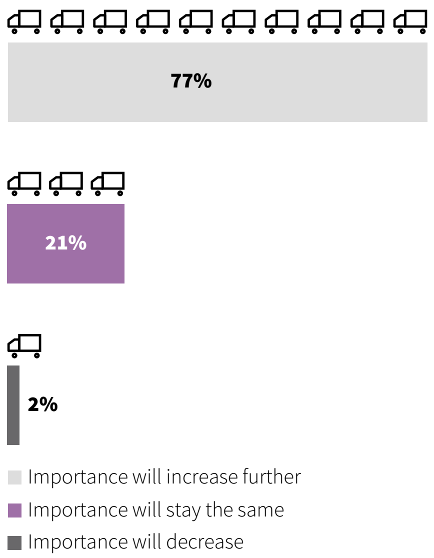
2021 Property Predictions Survey

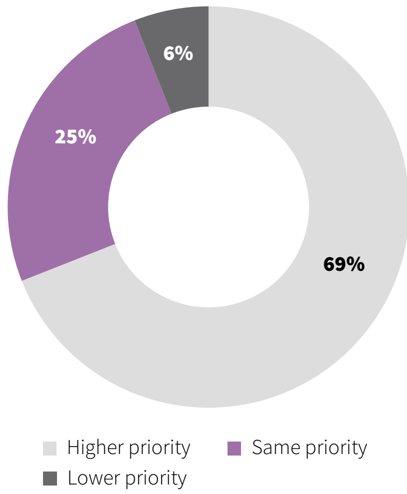
Over the next 12 months, which source of overseas capital will provide the strongest investment into UK Commercial Real Estate?



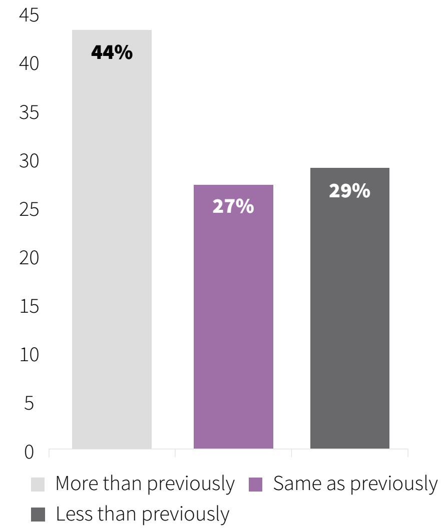
The logistics sector has outperformed, with the value of the supply chain now greater than ever. How will this value evolve over the next 12 months?



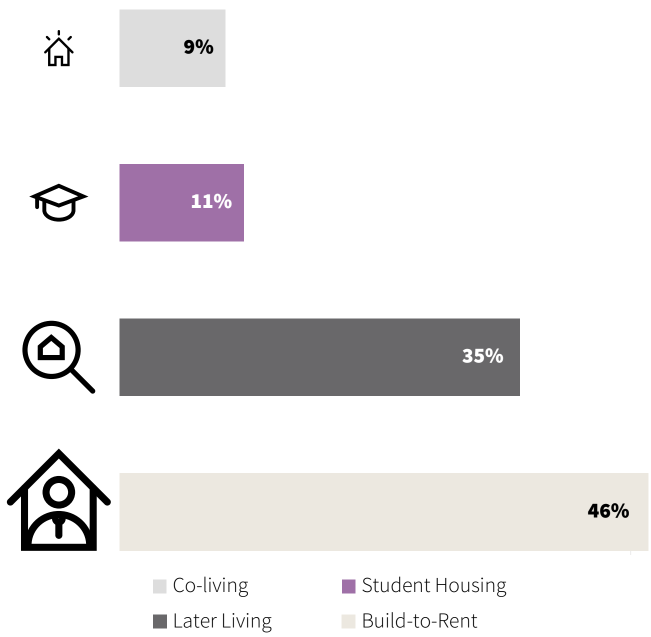
With the economy broadly more challenging now than 12 months ago, how will you prioritise the shift towards sustainability and wider social impact?



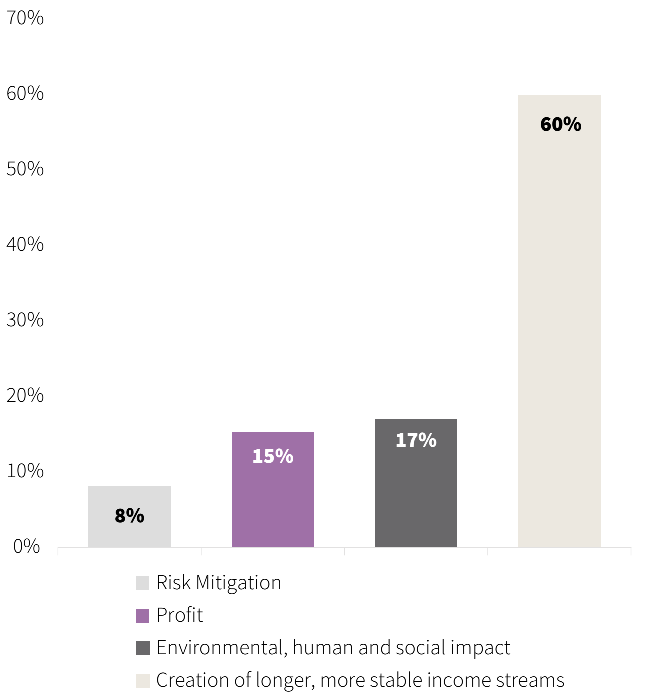
Over the next decade, how concentrated will investment and development be on our major city centres?



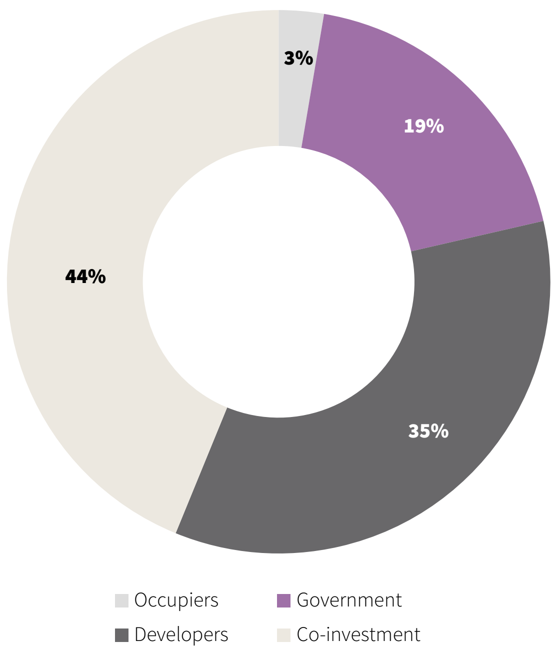
Which of the main Living sectors do you find most attractive for potential investment?



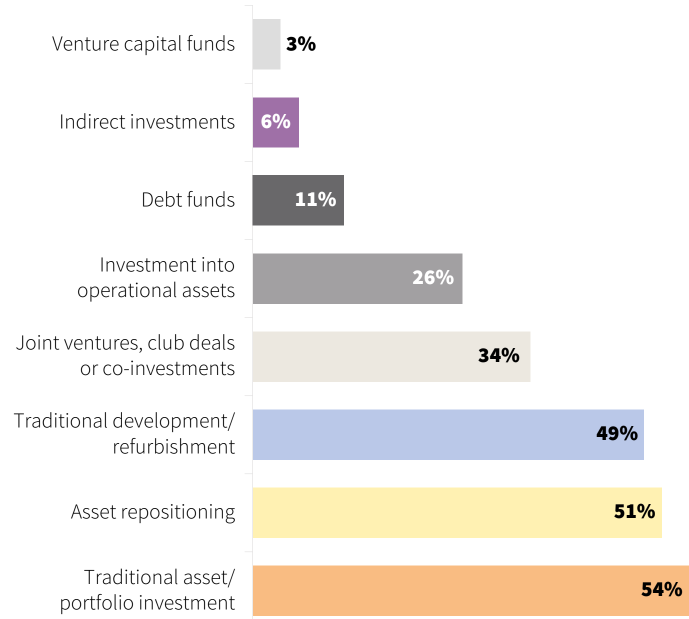
Many owners are re-evaluating their assets to understand the highest and best use. When considering asset repositioning, what is the most important driving factor?



Who should predominantly cover the cost of upgrading new or existing building stock to meet modern standards of environmental and human impact?



Which methods of capital deployment do you expect to utilise in the next 12 months?



*multiple selection

Outlook 2021

UK investment volumes expected to total between £50bn and £55bn in 2021

Following the strong finish to 2020, there is momentum in the investment market. We expect overall investment volumes to increase significantly as the recovery for the Covid-19 pandemic continues.

Our central scenario is for investment volumes to reach between £50bn and £55bn this year, an increase of around 20% to 25% on last year and broadly in line with long-term averages, but still below the stronger volumes in excess of £60bn seen in 2017 and 2018. There is a possible downside scenario, driven by a more protracted return to normality than currently expected, either as a result of a slower vaccine rollout or further virus variants. However, there is also a strong upside scenario, where a good economic recovery combined with high liquidity, low interest rates and pent-up demand from two years of Brexit and lockdown could lead to much higher transaction volumes.

International capital will remain at the core of the UK investment market and will continue to drive growth in overall activity. Of respondents to our investor survey, 46% expect the Asia-Pacific region to be the biggest source of overseas capital in 2021.

Cities will remain the engine of growth, supported by sustainable investment

Despite the impacts of the pandemic and the temporary enforced withdrawal from city centres, we anticipate a strong rebound when restrictions are eased. This is supported by the results of our survey, with 71% of respondents expecting the proportion of investment and development concentrated on major city centres will be either higher (44%) or the same (27%) as previously.

A key driver of growth will be the shift to more sustainable and responsible investing. Green growth will be a feature in the economy over the coming years, and sustainability and social impact will be areas of focus for many investors – 69% of respondents said that despite the more challenging economic environment, sustainability and wider social value are a higher priority now than 12 months ago, with a further 25% indicating that the priority was unchanged.

Asset repositioning will be a key strategy for many investors

The repositioning and repurposing of excess commercial stock will be a key theme throughout 2021 and beyond. Surplus retail stock, and to a lesser extent older office buildings in secondary locations, will provide opportunities for developers to rebalance the urban landscape, with a particular focus on growth sectors such as urban logistics, living and life sciences. In our investor survey, 51% expected to utilise an asset repositioning strategy over the coming 12 months, second only to traditional asset/portfolio level investment (54%).

Other strategies will also come increasingly to the fore as we move into the next cycle. Many investors are seeking opportunities in areas with greater operational exposure (26% of respondents to our survey), often in combination with operators themselves, and while still relatively small parts of the market, debt funds (11%) at the lower-risk end of the spectrum and higher-risk venture capital funds (3%), are broadening the investment landscape.

Life Sciences and Data Centres emerging as investable sectors

The UK is among the world leaders in Life Science research and development, and the 'Golden Triangle' of London, Oxford and Cambridge is a globally significant cluster of science and technology, home to four of the world's top 10 universities in 2021. Investor interest in the Life Sciences sector has grown exponentially in recent months, accelerated by the high-profile vaccine race. We estimate that there is currently around £15bn of global capital targeting UK Life Science real estate assets, of which only 10% has been deployed.

While this is very much a nascent sector from a commercial property perspective, clusters are starting to emerge in London, including White City, King's Cross and Waterloo, in addition to a number of business and science parks across the wider South East. Outside the Golden Triangle, there are established Life Science markets in Bristol, Manchester, Leeds, Nottingham, Edinburgh, Aberdeen and Glasgow, and emerging markets in other cities including Newcastle, Birmingham and Cardiff.

Data Centres are also seeing greater investor activity, encouraged by the resilience shown in recent months as an ever-increasing proportion of daily life moves online. The imminent arrival of 5G and continued cloud adoption will drive further occupier demand, stimulating yet more investor interest. Demand for low-latency centres will see a trend towards 'Edge' Data Centres, which are smaller but located closer to the urban areas they serve.

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"The life sciences sector has come of age. Technologies that have had so much potential for many years are starting to deliver and investors are responding by placing big bets on the future growth of the sector. This is feeding through into unprecedented demand for the specialist real estate facilities needed by growing life science companies. Covid-19 has only accelerated a process that was well underway at the start of 2020 and which we expect to continue for many years to come."

Dr Glenn Crocker
Head of Life Sciences

"The resurgence in the investment market over the latter part of 2020 was remarkable. Considering where we were after the first lockdown, to finish the year only 15% down represents an incredibly encouraging performance. Looking forward, we expect this bounce-back to broadly continue, albeit tempered to some extent by the return of stringent restrictions throughout much of the first half of 2021. The 'three L's' of Living, Logistics and Life Sciences are attracting the greatest investor interest, and are likely to see the strongest performance over the year ahead."

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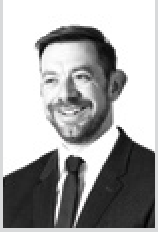

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