



UK REAL ESTATE

Investment Market Commentary – Q4 2020



APAM



“

Being at ease with not knowing is crucial for answers to come to you!

”

**Eckhart Tolle – spiritualist, metaphysicist, psychologist
(The Power of Now, 1997)**

Uncertainty was one of the most used words of 2020. Uncertainty breeds fear and fear paralyses investment markets. Whereas uncertainty is always with us and investors arbitrage uncertainty by discounting the obvious and betting on the unexpected 2020 was an exceptional year where the world faced a new challenge and battled with a pandemic for the first time in a century.

How we react to uncertainty determines our future. In 2021 investors will need to embrace the unknowns as we anticipate with hope a post Covid-19 era. Will we reoccupy our offices again? Will we jump on aeroplanes again? Will we shop in the high street? Will we go to the cinema? The answer to these questions and many others is of course a resounding 'YES' but to what degree will determine the price we pay for real assets. One thing is for sure the credit worthiness of the underlying occupier will be at the top of investors analysis.

A post Covid-19 investment environment will also place a greater value on Environmental and Social impact. The 'Green' agenda and the need for real estate and infrastructure to rebalance the social divide will change investors attitudes and place a premium on investment that has a positive impact.

The underlying message is to embrace the changes that are in front of us but investors must evaluate risk whilst recognising that uncertainty is always there and it is the degree of uncertainty that determines price.

WE HOPE YOU FIND OUR MARKET REPORT OF INTEREST

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EXECUTIVE SUMMARY

- On Christmas Eve 2020, the UK and EU agreed a trade deal, ahead of the end of the transition period in January 2021. The deal has been referred to as a framework, with key issues such as financial services, to continue to be debated in the New Year. Yet, the deal represents a key moment in the UK's exit from the bloc and assuages any concerns over the damaging effects of crashing out in a no-deal scenario. In certain areas, such as tax and state aid, the UK and EU have agreed high level commonality in rules but have not yet fleshed out the details. In other areas, such as farming, the UK has accepted greater friction in trade with the EU in order to assure the flexibility to strike deals with the rest of the world. With the conclusion of the EU trade deal and a separate deal with Turkey, the UK has now signed 62 trade agreements since it left the European Union. The markets have responded positively to the UK's progress as it endeavours to redefine itself as a forward-thinking green tech hub in the post-Brexit world.
- After emerging from a month-long lockdown, the UK successfully approved and administered the world's first COVID-19 vaccine. Markets rallied on the news with the MSCI All-Country World Index climbing by a record 12.2% in November, followed by a correction on 21 December after the discovery of a variant strain of the virus and the imposition of a strict lockdown which is expected to last until February. Returning optimism is balanced by remaining challenges yet to overcome, and whereas the end may be in sight, unemployment is expected to rise from 4.9% to 7.4% in 2021, which in turn could trigger a wave of defaults and bad debts. Retail empires have continued to collapse, but as lockdowns end and consumer confidence rises, those on their last cash reserves may survive. After a tumultuous four years of Trump, the global economy eagerly awaits a more level-headed Biden approach. President-elect Joe Biden has promised to reform relationships with allies and take a less reckless approach to international affairs.

EXECUTIVE SUMMARY

- The shopping centre and student sectors are underperforming, while Build-to-Rent, industrial, and retail warehouse outperform. The office sector paints a mixed picture in which Grade B office markets are struggling, whereas Grade A space remains in demand. Life sciences and tech generally will be crucial to the post-COVID recovery of offices as the government endeavours to brand the UK as a global science and tech hub. The industrial sector continues to be buoyed by strong demand, increasingly in the cold storage sector, although there is nervousness around the weak retail sector, which in part underpins its demand. The retail sector experienced several high-profile liquidations and CVAs in the past few months as its retransformation accelerates. Build-to-Rent residential investment is largely unaffected by COVID-19, but the student sector is marked by rental write-offs, poor occupancy, and striking students.
- Several key phenomena are reshaping and will continue to reshape the UK commercial real estate landscape. COVID-19 has ushered in a rethinking of shared space, predominantly in offices. The UK government's efforts to rebrand itself as a tech hub and champion of life sciences and green energy will also transform the real estate landscape, whether it be through heavy investment into technology parks or an 'eco-friendly' redesigning of cities. Other factors could increase or decrease the flow of foreign capital to the UK. The management of Brexit is crucial and will define the UK economic landscape for decades, especially in terms of the future tax and competition status of the UK. Early trade deals with Singapore and Taiwan are promising signs. Finally, the degradation of East/West tensions and how Biden may approach them are integral to future global political and economic stability, which in turn influences investor willingness to place capital in perceived safe havens such as the UK.

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