



CoStar Portfolio Strategy Client Update

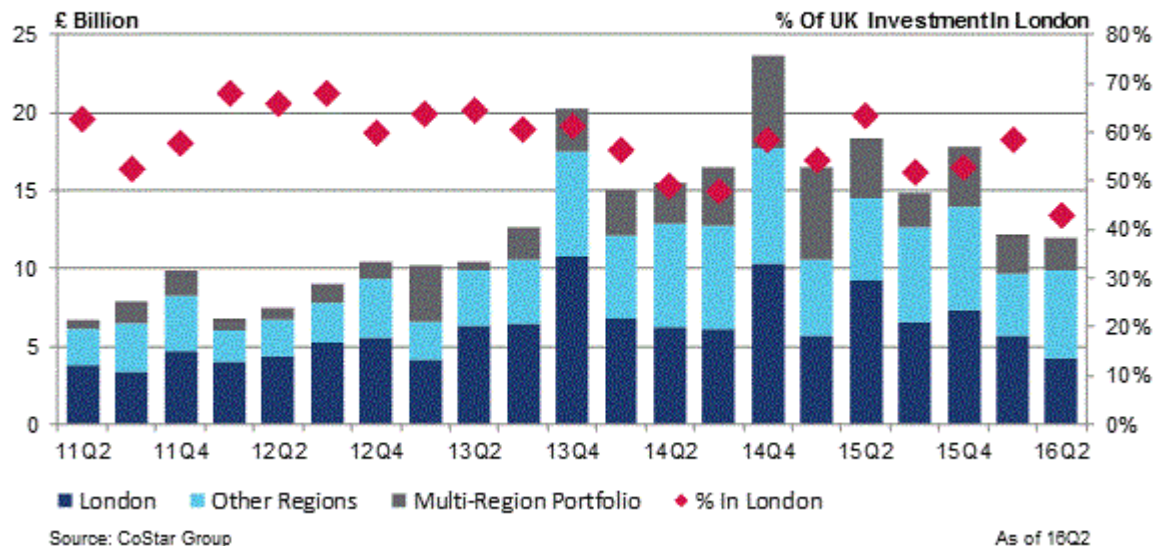
CoStar Investment Review: UK CRE Investment Fell Further In 16Q2
 By Mark Stansfield (mstansfield@costar.com) | August 16, 2016

Investment into UK commercial property fell to a fresh three-year low in 16Q2 as investors geared up for the EU referendum, according to CoStar's latest investment review.

Volumes in the first half of 2016 (£24.1 billion) were down 30% compared to the same period a year ago, while 16Q2—at £12 billion invested—was notable for being the weakest quarter in three years.

In perhaps a sign of things to come, London volumes were particularly hard-hit in Q2 2016, slumping to a three-year low of £4.2 billion. The capital received just 43% of all investment, its lowest share since Q1 2010 (see *Exhibit 1*). High pricing, Brexit uncertainty, and buoyant construction activity led investors to hit the pause button.

Exhibit 1: London Volumes Slumped To Three-Year Low in 16Q2



Falling volumes in London contributed to a sharp slowdown for office sales in general in Q2. Retail investment rose following Q1's record low. This revival was led by retail warehouses, with supermarket and shopping centre volumes still relatively weak.

But the sector perhaps most able to withstand future Brexit headwinds is logistics, with the shift from physical to online retailing expected to continue regardless of wider economic conditions. This is corroborated by responses in CoStar News' Brexit Sentiment Survey, the results of which are contained within the report.

Where will future investor demand come from? Will the overseas investors who had been scaling back from the UK—foreign investment in the first half of 2016 was down 40% Y-o-Y—be tempted back by the weaker pound and the expected fall in prices? Indications since the vote are mixed, with some high-profile deals stalling but the likes of Wells Fargo and Norges Bank pouncing on prime assets in London.

The decision to leave the EU has undoubtedly created some short- to medium-term volatility. But property is still attractive compared to gilts and underlying fundamentals in many markets remain strong. So as ever in a downturn, there will be opportunities for investors with capital, local knowledge and access to good data.

For more information and analysis on these themes, including an investment breakdown by sector and region, a spotlight on pricing and four pages of post-referendum analysis, please click [here](#) to view CoStar's **16Q2 UK Commercial Property Investment Review**.

Any Questions or Comments?

Contact: Mark Stansfield (mstansfield@costar.com)

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