



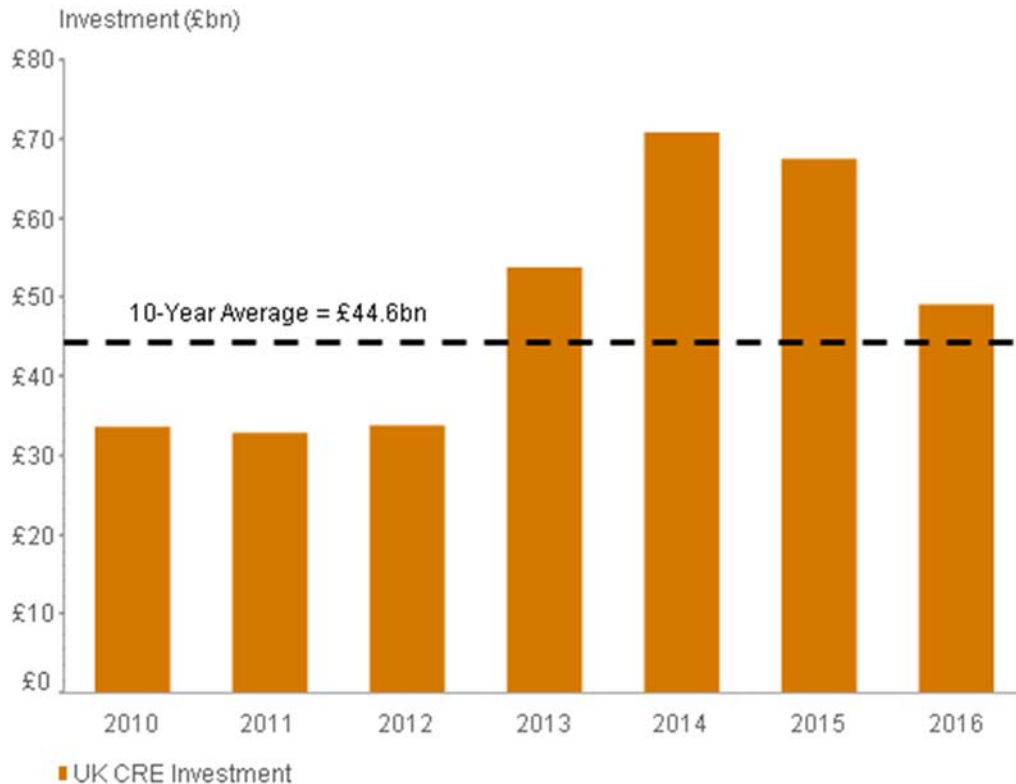
## CoStar Market Analytics Client Update

UK Commercial Property Investment Revived In 16Q4 As A Roller Coaster Year Ended On A High  
By Mark Stansfield ([mstansfield@costar.co.uk](mailto:mstansfield@costar.co.uk)) | February 13, 2017

Investment in UK commercial property recovered strongly in 16Q4, to £16 billion, following a very weak Q3, according to CoStar's latest investment data.

This brought the 2016 annual total up to £48.9 billion. Although down 27% from 2015's £67.4 billion and the weakest year since 2012, it was a respectable number, given heady pricing and the levels of uncertainty during the year, and 10% above the 10-year average (see *Exhibit 1*).

**Exhibit 1: Investment In UK Commercial Property Fell By 27% In 2016**



Source: CoStar Group

As of 16Q4

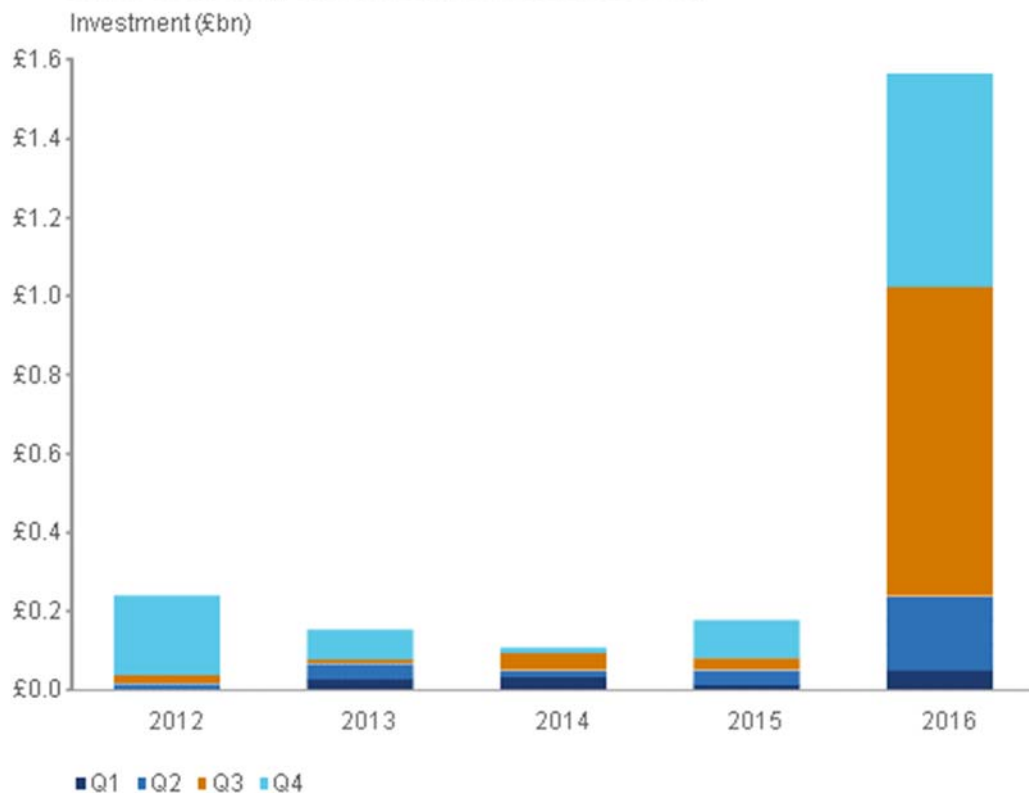
Indeed, investors remained as busy as ever in terms of deals done. Perhaps surprisingly, the number of transactions was broadly similar to figures the year before, at 4,100. And the 1,235 deals in 16Q4 were slightly ahead of the number in 15Q4, suggesting momentum going into 2017 and plenty of activity at the smaller end.

London suffered disproportionately in 2016 in terms of volume. Investment fell 29% there, compared to a 12% drop for the rest of the UK. And despite a bounceback in Q4—fuelled by a flurry of new entrants from China and Hong

Kong—Central London office investment slumped to a five-year low of £13.1 billion. Prices also softened slightly, albeit from very high levels, as evidenced in CoStar's newly launched repeat sale indices, which feature in this report. It will be interesting to see how the capital performs in 2017, with uncertainty around Brexit likely to impact occupier demand and a lot of office construction underway.

Outside of London, three trends stood out in 2016. One was the large drop in multi-region portfolio trades, a big driver of volumes in the previous two years. Another was the huge increase in demand from local authorities. Indeed, encouraged by central government cuts and low borrowing rates, local authorities spent more than £1.5 billion in 2016—considerably more than in the previous six years combined (see *Exhibit 2*). The third key trend was the rising popularity of the industrial sector. Pinpointed by many as the sector best placed to cope with any Brexit-related headwinds, industrial investment as a share of the total reached a seven-year high of 12%, helped by a particularly strong Q4.

**Exhibit 2: Spending By Local Authorities Soared In 2016**



Source: CoStar Group

As of 16Q4

So how will UK commercial property fare in 2017? Will investors continue their recent trend of de-risking or feel confident enough to move up the risk curve again? Will prices stabilise or come under further pressure? Will global capital continue to flood into London? Whatever your views, expect more twists and turns: 2017 is set to be another interesting year.

For more information and analysis on these themes, including the launch of two brand-new features—the aforementioned UK repeat sale indices and our CoStar 50 Occupier and Investment Activity Index, which provides insight on the most dynamic UK cities for investment—please click [here](#) to access our **2016 UK Commercial Property Investment Review**.

For an exclusive look at UK industry experts discussing the outlook for 2017, please click [here](#).

#### **Any Questions or Comments?**

Contact: Mark Stansfield ([mstansfield@costar.co.uk](mailto:mstansfield@costar.co.uk))

To view a Historical Archive of *Client Updates*, please log on to the [clients-only](#) section of our website.