Caxtons' Property Market Outlook

Last year this report attempted to look beyond the economic and political uncertainty afforded by the long running Brexit process. Little did we know at the launch of the 2019 Kent Property Market Report in November, that 2020 would see uncertainty replaced by apparent wholesale structural change in how we shop, work and socialise. Five years or perhaps even a decade of change has been accelerated into months.

Real estate has been front and centre of the changes that have affected us all. It is not surprising therefore, that the impact of the COVID-19 pandemic is being felt across the UK property market. Letting activity came largely to a halt at the time of lockdown and to date has shown only limited signs of recovery. Tenants, particularly in the retail, leisure and travel sector immediately felt the impact with multiple CVAs and business closures occurring over the summer, with more to come no doubt in the autumn. Inevitably, the investment market reacted cautiously, with transactional volumes significantly reduced at the time of writing (September 2020).

The recession caused by the coronavirus pandemic will be less severe than initially forecast by the Bank of England, but currently it still expects UK economic output to decline by 9.5% in 2020, with an almost doubling in unemployment to 7.5% by the end of the year. As the last several months have shown, things can change very quickly, but it is clear we are heading for a very difficult economic period.

This will inevitably have severe implications for property performance. At a national level the Investment Property Forum (IPF) Survey of Independent Forecasts suggests the total return from property will be -7.4% in 2020, driven by not only sharp falls in capital values across the sectors, but also declines in rents, averaging -5.0%. The industrial sector is the exception to this pattern, with a small increase in rents expected this year.

-7.4%

UK property total return forecast for 2020
Source: IPF Survey of Independent Forecasts for UK Commercial Property, Aug 2020

The Kent market generally reflects the national pattern, although it appears the industrial and business park sectors are performing a little better than the national picture. In fact, the county's industrial market is experiencing an exceptional year, with rents rising by a record level of 13.6% over the last 12 months.

Having attracted the attention of logistics operators for its relative affordability and connectivity over recent years, the new stock coming forward in Kent was already drawing strong demand. The pandemic has only added to requirements, driving robust rental growth. This has further contributed to the county's investor appeal which has expanded over the last couple of years.

Kent's business and science park market has also remained active during the pandemic. Many lettings in train prior to the lockdown were progressed, while new and expanding businesses have agreed terms since the start of the crisis. As might be expected, science parks such as Discovery Park, Kent Science Park and Kent Medical Campus have been particularly active with COVID-19 related activities combining with demand from other scientific businesses. There is also some evidence of companies looking to the county as an alternative to, or as a supplement to, a Central London presence. Rents remain stable, but the market remains tight. Businesses seeking new or expansion space will find limited options over the coming year.

The county's office market has seen lower levels of activity, with greater caution shown towards town centre locations during the lockdown period. However, the arrival of a number of tech businesses combined with the burgeoning critical mass of creative industry activity will support Kent's future recovery. Knowledge intensive industries such as these will be fundamental to the future positioning of the UK economy.

> "While we are heading for a difficult period, Kent's experience over recent months demonstrates that the property market can be part of the solution for the future.

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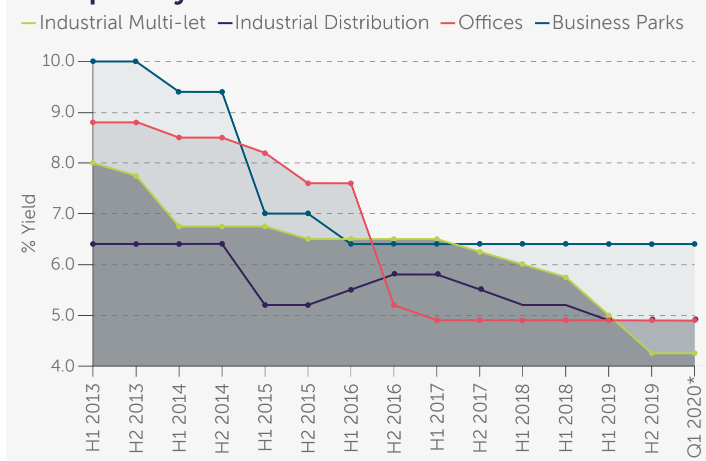
Colonial Ltd's Cross-channel Business Park, Minster.

Kent prime yields



*2020 figures to Q1

Source: Caxtons

Furthermore, given likely long term changes to working patterns, local towns may increasingly attract businesses and co-working space as full time commuting takes a backseat. Time will tell how such structural changes will play out, but the county's attractive towns with relatively affordable housing and good transport infrastructure might be expected to prosper in such a scenario. This would also be positive for many of Kent's town centre markets over the longer term.

However, in the short term, it is the retail sector that has felt the full impact of the crisis. While it is not possible to track rents at present given the uncertainty, further retailer failures and rental declines are inevitable over the next 12 months. The reorienting of towns and repurposing of retail space will be part of the solution. The role of residential use will also be important.

Fortunately, the county's residential market has proved resilient to date with average prices across Kent's towns growing by close to 2%. While construction activity slowed during the lockdown period, a range of local and national housebuilders have returned to sites. The range of brownfield and major new settlement schemes are likely to attract even greater demand from out-movers from London.

UK Total Return IPF Consensus Forecasts, average over 2020/24 period

Source: Investment Property Forum Survey of Independent Forecasts for UK Commercial Property, August 2020. Forecasts derived from 24 leading fund/investment management houses and consultancies

With limited transactional activity in the investment market, the Caxtons' Prime Yield Series is recorded to Q1 2020, showing a stable picture since last year's report. Looking ahead however, there is much uncertainty. Unsurprisingly the forecasts for the performance of the market over the coming year suggest a weakening in returns. The IPF Survey of Independent Forecasts suggests total returns to investors on a UK wide basis will be around 3% over the period 2020/24. However, as with economic forecasts at present, the uncertainty associated with these expectations is significant, not helped by the added complication of the UK's trade negotiations.

While we are heading for a difficult period, Kent's experience over recent months demonstrates the property market can be part of the solution for the future. The points made in this report over recent years, in terms of the county's strategic position, affordability, and burgeoning science and creative industry sectors, continue to hold true. There will be readjustment, and repurposing will be necessary, but the county has the foundations for a positive long term future. Property will play a fundamental role in this future.